Supreme Court, U.S.
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IN THE

Supreme Court of the United States

OCTOBER TERM, 1970

No. 71-138

GEORGIA-PACIFIC CORPORATION,
Petitioner,

v.

U.S. PLYWOOD-CHAMPION PAPERS, INC.,
Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

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July 30, 1971

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IN THE

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No.

GEORGIA-PACIFIC CORPORATION,

Petitioner,

v.

U. S. PLYWOOD-CHAMPION PAPERS, INC.,

Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

Petitioner Georgia-Pacific Corporation ("GP") prays that a writ of certiorari issue to review a judgment of the United States Court of Appeals for the Second Circuit in this action.

Opinions Below

The opinion of the Court of Appeals is not yet reported; it is printed in the Appendix hereto (pp. 1a-16a). The opinion of the District Court is reported at 318 F. Supp. 1116; it is printed in the Appendix hereto (pp. 18a-73a).

Jurisdiction

The judgment of the Court of Appeals was entered on June 15, 1971 (App. p. 17a). The jurisdiction of this Court is invoked under 28 U. S. C. § 1254(1).

Question Presented

Where damages awarded in a patent infringement accounting are calculated on the basis of a reasonable royalty, and where there are no exceptional circumstances, should not the Court have followed the general rule allowing interest only from the date when damages are liquidated rather than from the date of last infringement?

Statute Involved

35 U. S. C. § 284 provides in pertinent part:

> "§ 284 *Damages*
>
> Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court."

Statement of the Case

This petition seeks review of a judgment awarding interest on damages in a patent infringement action from a date almost 13 years prior to the date damages were actually liquidated. The damages awarded were calculated on the basis of a reasonable royalty which was fixed by the decision of the Court of Appeals only this past June.

This case began in 1955 when petitioner GP brought an action in the Southern District of New York under 28 U. S. C. §§ 1338(a) and 2201 for a declaratory judgment of invalidity and noninfringement of three patents owned by respondent's predecessor, U. S. Plywood Corporation ("USP"). These patents, now long expired, related to a decorative plywood, the surface of which was textured by striations to give it a combed appearance.

The District Court held all three patents invalid and not infringed (*Georgia-Pacific Plywood Co.* v. *United States Ply. Corp.*, 148 F. Supp. 846 (S. D. N. Y. 1956)). The Court of Appeals reversed and held a single claim of one of the patents (Deskey) valid and infringed (*Georgia-Pacific Corp.* v. *United States Plywood Corp.*, 258 F. 2d 124 (2 Cir. 1958), *cert. denied*, 358 U. S. 884 (1958)).

Upon remand the case was referred to a Special Master for an accounting to determine the amount of damages. His recommendation, based on an award of GP's profits, was rejected by the District Court in 1965, which held that the proper measure of USP's recovery should be a reasonable royalty (*Georgia-Pacific Corp.* v. *United States Plywood Corp.*, 243 F. Supp. 500, 513 (S. D. N. Y. 1965)). The District Court noted there was no claim that GP's infringement was "wilful" and that the infringement "was not tainted with unlawful purpose" (243 F. Supp. 509).

Hearings to determine the amount of the reasonable royalty were then conducted, and in 1970 the District Court determined this amount and added to it interest from the date of last infringement, September 1, 1958 (318 F. Supp. 1116, 1143 (S. D. N. Y. 1970); App. pp. 18a, 68a).

The Court of Appeals reversed as to the amount of a reasonable royalty (App. pp. 9a-11a), but followed the District Court in allowing interest from the last infringement—September 1, 1958—rather than from the date when the royalties, and therefore the damages, were liquidated—June 15, 1971 (App. pp. 11a-16a).

Reasons for Granting the Writ

1. The Decision of the Court of Appeals is in Direct Conflict with the Prior Decisions of This Court

The Court of Appeals has assumed to distinguish the instant case from this Court's decision in *Duplate Corp.* v. *Triplex Co.*, 298 U. S. 448 (1936), by construing Section 284 of the Patent Act of 1952 (*ante*, p. 2; 35 U. S. C. § 284, Act of July 19, 1952, c. 950, § 1, 66 Stat. 813) as though it granted to the court a discretion which it had not before possessed.

The Court said:

> "GP argues, in effect, that the deletion of the House language reinforced the hoary interest rule stated in *Duplate Corp.* v. *Triplex Safety Glass Co.*, 298 U. S. 448, 459 (1936): '[W]e think that interest should run from the date when the damages are liquidated, and not, as by the present decree, from the date of the last infringement.' . . . Moreover, accepting GP's view fails to give sufficient weight to the specific language which the final bill did add: 'interest . . . as fixed by the court.' We agree instead with the position taken in *Sciaky, supra*, that 'the statutory provision for . . . interest . . . [is] made discretionary with the District Judge.' *Although the question is not free from doubt*, we believe that the change in the statute was intended to grant the trial court its traditional discretionary power in equity. . ." (App. pp. 14a-15a; italics ours).

Of course, Section 284 granted the court "its traditional discretionary power in equity," but the court had had and had exercised that "traditional discretionary power" for a hundred years.

The Court of Appeals has misapprehended the *Duplate* decision, and the other decisions of this Court which preceded it, and it has misapprehended the history of the legislation on which it relied.

The *Duplate* case is only the latest of a consistent line of patent decisions marking the same path: *Mowry* v. *Whitney*, 81 U. S. (14 Wall.) 620, 653 (1871); *Littlefield* v. *Perry*, 88 U. S. (21 Wall.) 205, 229-230 (1874); *Parks* v. *Booth*, 102 U. S. 96, 106 (1880); *Illinois Central R. R. Co.* v. *Turrill*, 110 U. S. 301, 303 (1884); *Tilghman* v. *Proctor*, 125 U. S. 136, 160 (1888) and *Crosby Valve Co.* v. *Safety Valve Co.*, 141 U. S. 441, 457-8 (1891).

At the time of these decisions, the statute (35 U. S. C. § 70; R. S. § 4921; Act of July 8, 1870, c. 230, § 55, 16 Stat. 206; amended: (1) March 3, 1897, c. 391, § 6, 29 Stat. 694; (2) February 18, 1922, c. 58, § 8, 42 Stat. 392) made no provi-

sion for interest, and its allowance or disallowance depended solely on the equitable discretion of the court. The general rule applied in all of these cases, including the *Duplate* case, is expressed in the *Tilghman* case:

> ". . . by a uniform current of decisions of this court, beginning thirty years ago, the profits allowed in equity, for the injury that a patentee has sustained by the infringement of his patent, have been considered as a measure of unliquidated damages, which, as a general rule, and in the absence of special circumstances, do not bear interest until after their amount has been judicially ascertained; and the provision introduced in the patent act of 1870, regulating the subject of profits and damages, made no mention of interest, and has not been understood to affect the rule as previously announced" (125 U. S. 160).

These cases, without exception, left the door open, where equitable circumstances demanded it, for the allowance of interest prior to the time damages became liquidated. Thus, in the *Mowry* case (*ante,* p. 4), the Court refused interest prior to liquidation because the infringement "was not wanton" (81 U. S. 653), and in *Littlefield* (*ante,* p. 4), because there were no "wilful infringements" (88 U. S. 230). Similarly, in the *Tilghman* and *Crosby* cases (*ante,* p. 4), interest was not allowed "in the absence of special circumstances" (125 U. S. 160 and 141 U. S. 457-8), and in the *Duplate* case, because there were "no exceptional circumstances" (298 U. S. 459).

In the case of *Miller* v. *Robertson,* 266 U. S. 243 (1924), a nonpatent case, this Court explicitly stated what is implicit in all of the cases above:

> "Both in law and in equity . . . . interest is not allowed upon unliquidated damages. *Mowry* v. *Whitney,* 14 Wall. 620, 653. But when necessary in order to arrive at fair compensation, the court in the exercise of a sound discretion may include interest or its equivalent as an element of damages" (266 U. S. 258).

In summary, "the general rule" precluded interest prior to the liquidation of damages, but if infringement were "wanton" or "wilful," or if there were "special" or "exceptional circumstances," the court, in the exercise of its discretion, could award interest from a date prior to liquidation.

And the statute has not changed this hundred year old rule. In fact, Section 284 of the current patent act *(ante,* p. 2) is simply a codification of existing law and not, as the Court of Appeals here thought, a "change in the statute" (App. p. 15a). This is made clear by the history of the 1946 and 1952 laws.*

Here, not one of the factors which would impel the allowance of interest prior to liquidation of the damages is present. And, it is significant that the Court of Appeals

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* The House Report on Section 70 of the 1946 Act (H. R. Rep. No. 1587, 79th Cong., 2d Sess. (1946)), stated that "The object" of the 1946 amendment was to provide for damages "together with interest from the time infringement occurred." The Senate refused to accept this and amended the bill to provide for interest "as may be fixed by the Court" (S. Rep. No. 1503, 79th Cong., 2d Sess. (1946), to accompany H. R. 5311), and the bill, so amended, became Section 70 (Act of August 1, 1946, c. 726, § 1, 60 Stat. 778; Cong. Rec., Senate, at 9187-9188 (1946); and Cong. Rec., House, at 9881 (1946)).

What had happened in 1946 was essentially repeated in 1950-1952. The Court of Appeals below noted that "the legislative history . . . expressly disclaimed any attempt to make substantive changes in the law" (App. p. 13a, n. 8). And, while the House bill called for "interest from the beginning of the infringement complained of" (H. R. 9133, 81st Cong., 2d Sess. (1950), § 244), which would have been a "substantive change," on resubmission of the bill, Section 244 called for "interest and costs as fixed by the Court" (H. R. 3760, 82nd Cong., 1st Sess. (1951)) and the same language was used in proposed Section 284 (H. R. 7794, 82nd Cong., 2d Sess. (1952)). The bill (with an irrelevant amendment) was then passed and became the current Section 284 (35 U. S. C. § 284; Cong. Rec., Senate, at 9226 and 9534 (1952); Cong. Rec., House, at 9508 (1952)). Clearly, the statute only gave statutory sanction to the rule applied by this Court since the *Mowry* decision of 1871 (*ante,* p. 4).

has not relied on any of the exceptions which would justify such an allowance.

It may be that the Court of Appeals thought that GP's having "deliberately duplicated" USP's product (App. p. 15a) made its infringement "wilful" or "wanton." But such a consideration is wrong, both on the facts and the law.

In the District Court's unchallenged 1965 decision (243 F. Supp. 500), apparently unnoted by the Court of Appeals, it was stated:

> "USP makes no claim that GP's infringement was wilful within the purview of 35 U. S. C. § 284. It makes no claim for additional damages.
>
> "The infringement, though deliberate, was not tainted with unlawful purpose. GP relied, in good faith, on counsel's opinion which was upheld by the District Judge, though not sustained on appeal" (243 F. Supp. 509).

This finding shows beyond question that a challenge to the validity of another's patent which is "not tainted with unlawful purpose" is neither "wilful" nor "wanton." As the Sixth Circuit said, "Simply questioning the validity of the patent does not constitute wilful infringement" (*General Motors Corporation* v. *Dailey*, 93 F. 2d 938, 942 (1937); see also the *Mowry* case (*ante*, p. 4), 81 U. S. 653; the *Tilghman* case (*ante*, p. 4), 125 U. S. 161).

Notwithstanding this, the Court of Appeals has penalized GP by holding it liable for interest extending back for thirteen years. This imposes on any unsuccessful challenger a highly punitive barrier which is contrary to the purpose of the law, and which, as a practical matter, forecloses further challenges of patent validity (*cf. Lear, Inc.* v. *Adkins*, 395 U. S. 653, 663-664, 670-671 (1969)).

The decision of the Court of Appeals is in direct conflict with this Court's *Duplate* decision and with its earlier decisions which led up to *Duplate*. And, the Court of Appeals erred in construing Section 284 as conferring on the courts a new power, rather than recognizing that the Section simply endorsed a discretionary power which the courts had freely exercised for nearly a century.

2. The Decision of the Court of Appeals is in Direct Conflict with Every Other Court of Appeals which has Ruled on the Question Presented

The decision of the Court of Appeals sets up a rule for the Second Circuit which is directly at odds with that in every other court in the country.

The Court below relied heavily on the decision of the Sixth Circuit in *General Electric Company* v. *Sciaky Bros., Inc.*, 415 F. 2d 1068 (1969), but it completely misunderstood the *Sciaky* holding.

There, as here, the question was whether interest should be allowed from the date of the last infringement, or from the date when the damages were liquidated (415 F. 2d 1076).

In *Sciaky* the Court of Appeals quoted with approval the statement of the District Court that:

> "The court finds that the matter of when interest should commence to run is discretionary with the court under § 284 in cases *such as this involving wilful infringement. See* Duplate Corp. v. Triplex Safety Glass Co., 298 U. S. 448 [56 S. Ct. 792, 80 L. Ed. 1274] (1936). Were wilful infringement not found, the rule would require interest to run as of the date damages were liquidated" (415 F. 2nd 1076; italics ours).

The Court in *Sciaky* then made the statement, quoted here by the Court of Appeals (App. pp. 13a-14a), that while earlier drafts of the proposed statute contained language which would have sanctioned the award of interest "back to the date of infringement," the statute as finally passed deleted reference to such an allowance (415 F. 2d 1077). The *Sciaky* case does not support the decision below. To the contrary, it is directly opposed to it.

The Court of Appeals also twice referred to *Marvel Specialty Company* v. *Bell Hosiery Mills, Inc.*, 386 F. 2d 287 (4 Cir. 1967), *cert. denied*, 390 U. S. 1030 (1968) (App. p. 13a, n. 7, and p. 15a). That case, however, in no way

supports the decision below. It involved, not a reasonable royalty which became liquidated only upon the decision of the court (or the report of a Master), but an established royalty, which is based on a royalty fixed by prevailing licenses antedating the infringement (386 F. 2d 290-291). The difference between the rule prevailing in the case of an established royalty and that in the case of a reasonable royalty is generally recognized. *Swan Carburetor Co.* v. *Nash Motors Co.*, 133 F. 2d 562, 567 (4 Cir. 1943), *cert. denied*, 320 U. S. 762 (1943).

The 1946 amendment to 35 U. S. C. § 70 (*ante*, p. 6) made substantially the same provision for interest as the current Section 284 (*ante*, p. 2). Since the enactment of the 1946 amendment every case involving a reasonable royalty has applied the rule of the *Duplate* case in fixing the time for the commencement of interest.

These cases come from the Third, Sixth, Seventh and Ninth Circuits. There are no cases to the contrary—save the instant one—from anywhere.

Third Circuit: *Randolph Laboratories* v. *Specialties Develop. Corp.*, 213 F. 2d 873, 875 (1954), *cert. denied*, 348 U. S. 861 (1954).

Sixth Circuit: *Excel Auto Radiator Co.* v. *Bishop & Babcock Mfg. Co.*, 123 F. Supp. 315, 317 (N. D. Ohio 1953), *affirmed per curiam*, 212 F. 2d 586 (1954), *cert. denied*, 348 U. S. 823 (1954); *Wm. Bros Boiler & Manufacturing Co.* v. *Gibson-Stewart Co.*, 312 F. 2d 385, 387 (1963); and the *Sciaky* case (*ante*, p. 8).

Seventh Circuit: *Dixie Cup Co.* v. *Paper Container Mfg. Co.*, 169 F. 2d 645, 651 (1948); *Union Carbide Corporation* v. *Graver Tank & Mfg. Co.*, 282 F. 2d 653, 676-7, 678 (1960), *cert. denied*, 365 U. S. 812 (1961).

Ninth Circuit: *Radiator Specialty Company* v. *Micek*, 395 F. 2d 763, 764-765 (1968).

The *Union Carbide* and the *Radiator Specialty* cases, decided eight and sixteen years after the 1952 enactment of Section 284, applied the "general rule as to the allowance of interest" as stated in the *Duplate* decision (282 F. 2d 676-677 and 395 F. 2d 764-765).

Conclusion

The decision of the Court of Appeals below is in direct conflict with a line of decisions of this Court culminating in the *Duplate* decision and with the decisions of every other circuit where the question has been raised.

A large amount of patent litigation arises in the Second Circuit. The rule of that circuit as to the allowance of interest should be brought into line with the rule of this Court and the rule applied in the rest of the country.

Respectfully submitted,

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July 30, 1971

Court of Appeals Opinion
June 15, 1971

UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

Nos. 415, 416—September Term, 1970.

(Argued February 16, 1971 Decided June 15, 1971.)

Docket Nos. 35341, 35444

GEORGIA-PACIFIC CORPORATION,

Appellant,

—against—

U. S. PLYWOOD-CHAMPION PAPERS, INC.

Appellee.

Before:

LUMBARD, SMITH and FEINBERG,

Circuit Judges.

Appeal from judgment of the United States District Court for the Southern District of New York, Charles H. Tenney, *J.*, which awarded damages for infringement of patent. Award modified.

JOHN VAUGHN GRONER, New York, N. Y. (Fish & Neave, Ronald F. Ball, on the brief), *for Appellant.*

RAYMOND T. HEILPERN, New York, N. Y. (Baer & McGoldrick, William D. Zabel, Heilman & Heilman, James M. Heilman, on the brief), *for Appellee.*

Court of Appeals Opinion
June 15, 1971

FEINBERG, *Circuit Judge:*

Georgia-Pacific Corporation (GP) appeals from a judgment of the United States District Court for the Southern District of New York, Charles H. Tenney, *J.*, which awarded U. S. Plywood-Champion Papers, Inc. (USP) $800,000 damages for infringement of a patent plus interest at the rate of six per cent per annum from the date of last infringement, September 1, 1958. For the reasons stated below, we reduce the award to $570,000.

In the spring of 1955, GP began to market a decorative striated plywood wall panel. Acknowledging that USP held patents on this type of paneling, GP instituted an action for declaratory judgment that the three patents involved were invalid and not infringed. The United States District Court for the Southern District of New York, William B. Herlands, *J.*, initially found the patents invalid, 148 F. Supp. 846 (1956), but this court reversed and held one of the patents (Deskey) valid and infringed. 258 F.2d 124 (2d Cir.), cert. denied, 358 U.S. 884 (1958). Upon remand, the case was referred to a Special Master for an accounting covering the period March 1955 to September 1958. The Master recommended that USP should be awarded GP's net profits of $655,837. After a hearing in the district court, Judge Herlands reversed the Master's ruling, holding that GP's profits did not constitute the proper measure of recovery and that damages should be computed on the basis of a reasonable royalty. 243 F. Supp. 500 (S.D.N.Y. 1965). A series of hearings on the reasonable royalty issue were subsequently held and a draft opinion was substantially completed, but Judge Herlands died before the decision was actually rendered. The case was assigned for all purposes to Judge Tenney and the parties signed a stipulation providing, *inter alia,*

> that [the court] shall have the full and unlimited right to use or not to use all or any part of said draft of opinion, notes and memoranda, with or without acknowledgment of its source, as though the same were a part of the record made herein.

Judge Tenney thereafter rendered the award of $800,000 that forms the subject of this appeal. 318 F. Supp. 1116 (S.D.N.Y. 1970).

I.

The statutory authority for the district court's award was 35 U.S.C. § 284, which provides in relevant part that

> the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer . . . .

The parties seem in essential agreement that the trial court correctly chose to apply the "willing buyer-willing seller" rule in determining a reasonable royalty under that section. This rule contemplates a suppositious meeting in advance of infringement between patent owner and potential infringer in order to work out a license agreement. The trial court found a wide range of factors relevant in such hypothetical negotiations and carefully considered whether there was competition between USP's product (Weldtex) and other kinds of paneling; the effect of both the cyclical popularity of specialty plywoods and the short time the patent had to run; USP's profits on sales of Weldtex and collateral sales of other products occasioned by sales of Weldtex; GP's expected profits on both striated plywood and collateral sales; the importance of the Deskey patent relative to other processes necessary for producing the plywood and Weldtex's decorative quality; and whether

there were comparable prevailing royalties on either Weldtex or similar products. The trial court's crucial finding appears to have been that USP made a profit of $48.64 per thousand square feet of Weldtex sold. This led to the subsidiary finding that GP could reasonably have expeeted to make at least that great a profit on its infringing sales of striated plywood. On the basis of these and other findings, the court granted USP a "reasonable royalty" of $50 per thousand square feet. While we sustain all of the trial court's basic findings, we modify its ultimate conclusion as to a reasonable royalty because we think it fails to leave GP a reasonable profit on its sale of striated plywood. GP, however, attacks many of these basic findings and to those arguments we turn first.

II.

GP's first challenge is that the trial court misapplied the willing buyer-willing seller rule by placing an incorrect cut-off date on evidence respecting the commercial value of the patent. GP states that the court only allowed such evidence if it would have been known by February 1955, the time of the hypothetical negotiations, and excluded relevant factors which became known after that date.

Although GP may be correct in assuming that relevant factors occurring after the infringement begins should be considered, cf. *Sinclair Refining Co.* v. *Jenkins*, 289 U.S. 689, 697 (1933), it is incorrect in asserting that the trial court did not do so. The trial court itself stated that:

> [This] Court [h]as taken into account the modifying effect of the facts developed subsequent to 1955 and has assessed them together with all other probative evidence so far as they bear upon the reasonableness of the assumptions and expectations of the parties in their hypothetical negotiations in 1955.

318 F. Supp. at 1122. And an examination of relevant portions of the record merely reveals that the court understandably gave greater weight to those factors apparent at the time of the suppositious negotiations than to those occurring two or more years later. Such action hardly constitutes reversible error.

GP's next set of arguments concerns the trial court's alleged miscalculation of USP's profits on the patented product (Weldtex). GP claims that the trial court erred in relying on (1) unqualified USP expert witnesses whose testimony was contrary to their experience and (2) "inappropriate" USP *pro forma* profit statements "based on speculation and guess."

As to the qualifications of USP witnesses Raymond Heilpern and Sol Antoville with respect to their testimony concerning USP's profits on Weldtex, we note that the trial court found their testimony not persuasive and set an average profit on Weldtex that was lower than that proffered by either USP witness. 318 F. Supp, at 1128-29. Nevertheless, since the testimony of these witnesses was given considerable weight on other issues, see *id.* at 1143, we briefly consider GP's attack on their qualifications. The trial court made specific findings on that issue:

> Both Raymond T. Heilpern and Sol W. Antoville testified in person before Judge Herlands in behalf of USP. The Court exercised the opportunity thus presented of questioning them. Their extensive appearance on the stand also afforded the Court ample opportunity to observe their demeanor and manner of testifying. Their professional and technical qualifications and their testimonial credibility and reliability appear to have impressed Judge Herlands, and their testimony is equally impressive to me.

Id. at 1142. The court also went on to characterize their testimony as "factually supported, authoritative, forthright, realistic, reasoned and specifically and concretely directed to the subject of striated fir plywood," *id.*, in sharp contrast to its finding that the GP experts were "not conversant with the business considerations in the marketing of striated fir plywood . . . [and] did not know anything about a licensing situation realistically comparable to that presented by the present case." *Id.* at 1141. After consideration of the record, we see no reason to disturb these findings. See Fed. R. Civ. P. 52(a).

GP makes a number of objections to the use of USP's *pro forma* statements in estimating USP's profits on Weldtex. It contends that there was not enough allocated to costs because Weldtex requires a particularly high standard of face ply. The trial court made no specific finding on this issue but, in light of the existing testimony that the extra costs were unnecessary, we do not find the court's failure to allocate additional costs clearly erroneous. GP also argues that extra costs should have been allocated for advertising expenses. As noted by USP, however, the court found that Weldtex materially contributed to the sales volumes of other items, some of which were unadvertised, so USP's procedure of allocating advertising costs on the basis of a product's relative sales appears reasonable. In any event, the court's failure to add such costs is not clearly erroneous. The same holds true for the court's decision not to allocate greater costs to Weldtex on the ground that it was a "specialty" rather than a staple commodity. GP's other objections to the use of the *pro forma* statements are similarly without merit.

III.

GP also contends that the trial court erred in failing to give sufficient weight to a myriad of factors which GP prof-

fered below as undercutting the value of USP's patent. A listing of the trial court's findings on these questions follows: (1) USP's arrangement with the inventor Deskey had no significant probative bearing upon the issue of a reasonable royalty (318 F. Supp. at 1137-38); (2) USP's licenses of the Deskey patent to other mills involved circumstances so different from the USP-GP situation as to be irrelevant in determining a reasonable royalty in this case (*id.* at 1138-39); (3) there was no meaningful pattern of royalties in the industry relevant to the hypothetical negotiations (*id.* at 1139-40); (4) the importance of the decorative quality of the striations did not undercut the value of the patent (*id.* at 1134-37); (5) although specialty paneling is subject to popularity cycles, Weldtex had yet to lose its commercial value at the time of the hypothetical negotiations (*id.* at 1125-26); (6) the fact that the patent had only four years to run was of minimal importance since the investment required was modest, the commercial success had been demonstrated, GP had the opportunity to get a head start on a product it intended to market after the patent expired and the royalty was a percentage of sales which did not tie GP to a fixed financial obligation (*id.* at 1126-27); (7) Weldtex was relatively insulated from competition at the time of GP's infringement (*id.* at 1124-25).

After careful consideration, we believe that the resolution of these issues by the trial court was correct.

IV.

GP's last, and most substantial, challenge concerns its profits on striated plywood after payment of the supposititious royalty. GP asserts, and the court below appears to have accepted, the proposition that under the willing buyer-willing seller rule a "reasonable royalty must be fixed so

as to leave the infringer, or suppositious licensee, a reasonable profit.'"[1] 318 F. Supp. at 1122. The trial court's award appears to acknowledge this standard:

> [A] royalty of $50.00 per thousand square feet payable by GP to USP would have enabled GP to realize a reasonable profit . . . GP's average realization on all its striated fir plywood sales throughout the infringement period was $159.41 per one thousand square feet . . . [and] after paying $50.00 per one thousand square feet to USP, the remainder of about $109.41 would enable GP to make a substantial profit. . . .

Id. at 1143. Yet we cannot square this result with the trial court's finding that GP would reasonably have expected to earn profits approximating USP's, $48.64 per thousand square feet. *Id.* at 1131. Even if a small degree of profit is added for collateral sales in order to justify the court's subsequent finding that "GP's reasonably expected rate of profit on the sale of striated fir plywood would have been

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[1] Judge Herlands also accepted this proposition for, even in his opinion which held that GP's profits were not the proper measure of recovery, he noted that:

> The size of an infringer's profits is often an influential factor in the determination of the amount of a reasonable royalty. . . .
>
> • • •
>
> In fact, the very definition of a reasonable royalty assumes, that, after payment, the infringer will be left with a profit. . . .

243 F. Supp. at 529, 539.

$50.00 per thousand square feet," *id.* at 1141,[2] the royalty imposed still gobbles up all of GP's expected profit. We also note that the trial court's $800,000 award more than encompasses the $685,837 which the Master found to be GP's actual profits.

Thus, although we affirm the other findings, we feel that despite the trial court's professed intention to do so, it did not allow GP a reasonable profit after paying the suppositious royalty. This is a basic error which should be corrected. We would, in fact, be inclined to remand for reconsideration were it not for the extraordinary length of time this litigation has already lingered and the willingness of the party ultimately paying the damages to have us dispose of the case. Accordingly, we turn to a redetermination of the award on the basis of the record before us.

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[2] The trial court found that:

> [T]he figure of $48.64 per thousand square feet of striated fir plywood sold, representing GP's probable expectation of profit on that item alone, would not reflect the factor of GP's expectation of profits on collateral sales generated by the sale of striated plywood.
>
> The evidence does not permit an inference as to the quantum, even approximately, of the profits derivable from collateral sales by GP. To assess this factor separately and monetarily by assigning a dollar and cents valuation to it would involve impermissible conjecture and speculation. In the circumstances, therefore, the indisputable fact that such profits would be generated in a significant amount by the sale of striated fir plywood is treated by the Court as a factor strengthening USP's bargaining position and supporting the reasonableness of the figure of the profit rate on the sale of striated fir plywood.

318 F. Supp. at 1132. While we recognize the trial court's dilemma, its failure to quantify leaves us no recourse but to ignore profits on collateral sales or to assume that such profits were taken into account in arriving at the $50.00 figure for GP's reasonably expected profits. We choose the later alternative.

Since the error was to leave GP no profit at all after payment of the suppositious reasonable royalty of $50 per thousand square feet, we must first determine what would be a reasonable profit for GP after payment of the royalty. We note that the Master found, on the basis of GP's annual reports, that GP's average net profit on sales of all products during the period of infringement was slightly over nine per cent of sales. Report of Special Master at 81. It follows that GP would have been willing to pay a royalty which, after payment of its other costs, would leave it nine per cent profit on sales of the licensed item.[3] Since the trial court found that GP's "average realization" on those sales was $159.41, 318 F. Supp. at 1143, such a profit would be $14.35 per thousand square feet in the present case. The remainder is arithmetic:

	$ per thousand square feet
GP's expected profit on the item:	$50.00
9% profit on sales:	14.35
assumed reasonable royalty:	35.65

The district court apparently used a rounded-off figure of 16,000,000 square feet for GP's total sales of the infringing item. Using that figure and multiplying it by the re-

[3] GP can hardly argue that the 9% is too low a profit on striated plywood since the figures proffered before the Master indicated that GP found it worthwhile to continue production although its claimed profits were less than 6% of sales. See Report of Special Master at 81.

duced reasonable royalty of $35.65 per thousand square feet, we arrive at a rounded-off total award of $570,000.[4] We realize that no one can be sure what the parties would have done had they actually negotiated. But determination of an assumed reasonable royalty is in essence a device for retroactively reaching a just result,[5] and we feel that a reasonable royalty of $35.65 per thousand square feet is a fair one on the basis of the record before us. Accordingly, we modify the lower court's award of a reasonable royalty of $50.00 per thousand square feet to $35.65 per thousand square feet and determine that GP is liable in the amount of $570,000 before interest.

V.

The district court's award of a reasonable royalty also granted "interest . . . from the date of the last infringement, September 1, 1958, to the date of payment of the award, at the rate of 6 per cent per annum." 318 F. Supp. at 1143. Both parties appeal from the decision as to inter-

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[4] Our confidence in this result is somewhat bolstered by the way it approximates a straight arithmetic compromise between the least that USP witnesses testified they would accept ($50 per thousand square feet) and the "slight" indication, 318 F. Supp. at 1141-42, from the testimony of GP's chief license negotiator that GP might have been willing to pay one-half of expected net profits (on the trial court's finding of GP's expected profit, this would amount to $25 per thousand square feet).

[5] As Judge Learned Hand put it:

> The whole notion of a reasonable royalty is a device in aid of justice, by which that which is really incalculable shall be approximated, rather than that the patentee, who has suffered an indubitable wrong, shall be dismissed with empty hands.

Cincinnati Car Co. v. *New York Rapid Transit Corp.*, 66 F.2d 592, 595 (2d Cir. 1933).

est. GP contends that interest should be granted only from the time the damages were liquidated by the district court in 1970. USP argues that interest should run from the various times that the reasonable royalties would have been paid in the years 1955-1958. The difference is substantial since the basic award, as modified, is $570,000, and the period of interest in dispute is asserted to be almost 15 years, at least for part of the sums due.

The relevant portion of 35 U.S.C. § 284 authorizes an award of damages to a "claimant," "together with interest and costs as fixed by the court." Prior to 1946, the statute did not specifically refer to interest. Act of Feb. 18, 1922, ch. 58, §4921, 42 Stat. 392. In that year, the statute was amended. The major change was to eliminate the recovery of an infringer's profit as such and to allow recovery of the claimant's damages only.[6] Along with that change, language as to interest was inserted in approximately its present form. USP contends that the purpose of the amendment vis-a-vis interest was stated in a 1946 House Report:

> The object of the bill is to make the basis of recovery in patent-infringement suits general damages, that is, any damages that complainant can prove, not less than a reasonable royalty, *together with interest from the time the infringement occurred* . . . . [Emphasis added.]

H.R. Rep. No. 1587, 79th Cong., 2d Sess. (1946). GP counters that the House version of the bill was not accepted and the

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[6] The distinction between a claimant's "damages" and an infringer's "profits" as terms of art is thoroughly discussed in Judge Herlands' opinion that held that GP's profits were not the proper measure of recovery and that USP's damages should be computed on the basis of a reasonable royalty. 243 F. Supp. 500 (S.D.N.Y. 1965).

amended bill used the language "together with such . . . interest, as may be fixed by the court."[7] The effect of the legislative history[8] on this issue was succinctly stated in *General Electric Co.* v. *Sciaky Brothers,* 415 F.2d 1068, 1077 (6th Cir. 1968), where appellant claimed that the district court erred in allowing interest only from the date of a master's report:

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[7] USP argues that the language of the House Report was nevertheless given sanction by the Supreme Court when it was cited in *Aro Mfg. Co.* v. *Convertible Top Replacement Co.,* 377 U.S. 476, 505-506 (1964). The sole purpose of the citation was, however, to support the proposition that "[t]he purpose of the change was precisely to eliminate the recovery of profits as such and allow recovery of damages," *id.* 505, and we do not find the case controlling as to the interest issue before us. But cf. *Marvel Specialty Co.* v. *Bell Hosiery Mills, Inc.,* 386 F.2d 287, 290 & n. 3 (4th Cir. 1967) (semble), cert. denied, 390 U.S. 1030 (1968).

[8] GP also argues that the same scenario took place with respect to the 1952 codification of the patent laws. It correctly states that the House initially proffered "interest from the beginning of the infringement complained of . . . ." H.R. 9133, 81st Cong., 2d Sess. (1950). But H.R. 9133 was replaced by other bills which included language similar to the provision adopted in 1946. Moreover, the legislative history concerning the House bill that was ultimately passed expressly disclaimed any attempt to make substantive changes in the law:

> [I]t was decided not to include most of the proposed changes in a bill but to defer them for later consideration, and to limit the bill to the main purpose of codification and enactment of title 35 into law, with only some minor procedural and other changes deemed substantially noncontroversial and desirable.

H.R. Rep. No. 1923, 82d Cong., 2d Sess. (1952). Thus, the failure to change the interest language in 1952 is not probative as to congressional intent with respect to the issue before us.

> We note, of course, that on the interest issue, both House and Senate reports on prior versions of 35 U.S.C. §284 did contain language which could have been construed as a mandate to the District Court to award interest back to the date of infringement. Whatever prior versions of the bill or earlier committee reports may have stated, however, the critical fact is that the bill was amended so as to delete the reference to "interest from the time the infringement occurred." Under these circumstances, we do not see how we can say that the . . . District Judge erred as a matter of law . . . .

Thus, whatever we might otherwise feel about the efficacy of the rule suggested by USP,[9] we agree with GP that Congress did not purport to require interest from the dates on which royalties would normally have been paid. But the next step in GP's reasoning, that Congress intended no change whatsoever in the existing law respecting interest, does not necessarily follow. GP argues, in effect, that the deletion of the House language reinforced the hoary interest rule stated in *Duplate Corp.* v. *Triplex Safety Glass Co.*, 298 U.S. 448, 459 (1936): "[W]e think that interest should run from the date when the damages are liquidated, and not, as by the present decree, from the date of the last infringement." Such a reading of Congress's failure to enact the House language has an initial appeal and there have been several post-1946 cases which have continued to apply the *Duplate* rule. See *Wm. Bros. Boiler & Manufacturing Co.* v. *Gibson-Steward Co.*, 312 F.2d 385, 387 (6th Cir. 1963); *Union Carbide Corp.* v. *Graver Tank & Mfg. Co.*, 282 F.2d 653, 677 (7th Cir. 1960),

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[9] See Note, Recovery in Patent Infringement Suits, 60 Colum. L. Rev. 840, 854-55 (1960).

cert. denied, 365 U.S. 812 (1961); *Randolph Laboratories, Inc.* v. *Specialties Development Corp.*, 213 F.2d 873, 875 (3d Cir.), cert. denied, 348 U.S. 861 (1954). But cf. *Marvel Specialty, supra* note 7. However, in none of the cases applying the old rule did the court address itself to the effect of the new statutory language. Moreover, accepting GP's view fails to give sufficient weight to the specific language which the final bill did add: "interest . . . as fixed by the court." We agree instead with the position taken in *Sciaky, supra,* that "the statutory provision for . . . interest . . . [is] made discretionary with the District Judge." Although the question is not free from doubt, we believe that the change in the statute was intended to grant the trial court its traditional discretionary power in equity,[10] which would allow Judge Tenney to go as far as he did. See C. McCormick, Damages §59 (1935).

Once it is established that the district judge had the power to award interest from the date of last infringement, we think it clear that doing so in this case was no abuse of discretion. GP deliberately duplicated Weldtex and put itself in direct competition with USP in spite of its own counsel's warning that an expensive suit was inevitable. Moreover, since USP is recovering here only a reasonable royalty, GP is able in theory to retain the same profit it would have earned for the infringing period as a licensee. Since it has had the use of the money representing the reasonable royalty that it has not paid, interest at least from the date of last infringement is hardly unreasonable. Indeed, USP has a persuasive argument that the equities require GP to pay interest from the dates on which roy-

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[10] In *Merrell Soule Co.* v. *Powdered Milk Co.*, 7 F.2d 297, 300 (2d Cir. 1925), we characterized a reasonable royalty as "damages recovered and recoverable in equity."

alties would have been paid. But we have held, *supra*, that section 284 did not require that result, and whether the district court had the power in its discretion to reach it we leave for another day.[11]

Accordingly, the award is reduced to $570,000, with interest, as the district court ruled, from the date of last infringement.

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[11] In light of our holding, we find it unnecessary to consider USP's argument that interest from the date of last infringement was proper because the case comes within the "exceptional circumstances" exception to the *Duplate* rule. 298 U.S. at 459. Moreover, this argument was apparently not made below and no finding was made.

Judgment
June 15, 1971

UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

At a Stated Term of the United States Court of Appeals, in and for the Second Circuit, held at the United States Courthouse in the City of New York, on the fifteenth day of June one thousand nine hundred and seventy-one.

Present: HON. J. EDWARD LUMBARD,
HON. J. JOSEPH SMITH,
HON. WILFRED FEINBERG,
Circuit Judges.

GEORGIA-PACIFIC CORPORATION,
Plaintiff-Appellant,
v.
UNITED STATES PLYWOOD-CHAMPION PAPERS INC.,
Defendant-Appellant.

Appeal from the United States District Court for the Southern District of New York.

This cause came on to be heard on the transcript of record from the United States District Court for the Southern District of New York, and was argued by counsel.

ON CONSIDERATION WHEREOF, it is now hereby ordered, adjudged, and decreed that the judgment of said District Court be and it hereby is modified in accordance with the opinion of this court.

A. DANIEL FUSARO
Clerk

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

GEORGIA-PACIFIC CORPORATION,
Plaintiff,

—against—

UNITED STATES PLYWOOD CORPORATION,
Defendant.

Civil Action No. 99-195

OPINION

May 28, 1970

District Court Opinion
May 28, 1970

TENNEY, J.

[1] By opinion dated October 26, 1956, entered in an action by Georgia-Pacific Corporation (hereinafter referred to as "GP") for a declaratory judgment of invalidity and non-infringement of three patents held by United States Plywood Corporation (hereinafter referred [2] to as "USP") and upon a counterclaim by USP for patent infringement and unfair competition, my late brother Judge Herlands found USP's three patents (one Deskey and two Bailey patents) invalid for lack of invention, not infringed by GP's product and, further, that there was no proof that GP engaged in acts of unfair competition. 148 F. Supp. 846 (S. D. N. Y. 1956). The Court of Appeals reversed and remanded in 1958, holding that Claim 1 of USP's Deskey Patent No: 2,286,068 covering "Weldtex" striated fir plywood valid and infringed by GP. 258 F.2d 124 (2d Cir.), *cert. denied*, 358 U. S. 884 (1958).

Following the decision of the Court of Appeals, the case was referred to a special master to determine the amount of damages to be awarded to USP under 35 U. S. C. § 284 (1952),[1] which provides for "damages adequate to compensate for the infringement." The master, computing damages upon the basis of GP's profits derived from the sale of the infringing article,[2] awarded $685,837.00 to USP. Judge Herlands, on exception to the Master's Report, concluded that under the instant circumstances and controlling statute GP's profits did not constitute the proper measure of recovery, and that the award [3] to USP should have been computed on the basis of a reasonable royalty. 243 F. Supp. 500 (S. D. N. Y. 1965).

Evidence relating to the issue of the amount of reasonable royalty to be paid by GP to USP was presented to Judge Herlands on June 8 and October 2, 3 and 4, 1967, November 12 and 20, 1968, April 30, May 19-22, and June

23-24, 1969. During the course of these hearings, GP's Exhs. 1-38 and USP's Exhs. 1-47, 50, 53-56, 59-68 were received in evidence. Briefs were filed by both parties herein on September 22 and 23, 1966, November 28, 1966, January 22, 1968, and July 22, 1969 (proposed findings of fact and conclusions of law having been submitted with the briefs of November 28, 1966 and July 22, 1969).

After having viewed the demeanor of witnesses and examined the transcript, briefs, Master's Report (hereinafter referred to as "MR"), and applicable authority with a degree of care characterized by his judicial career, Judge Herlands died on August 28, 1969 without having filed a formal opinion on this issue. However, at the time of his death Judge Herlands had substantially completed a draft of his opinion.

[4] Thereafter, on October 9, 1969, Chief Judge Sugarman referred this action to me for all purposes. On the basis of a conference held on December 16, 1969, the parties have stipulated that this cause be submitted for the purpose of determining the amount of the reasonable royalty upon the proceedings and briefs previously referred to herein, "it being specifically understood and agreed between the parties hereto that [the Court] shall have the full and unlimited right to use or not to use all or any part of said draft of opinion, notes and memoranda, with or without acknowledgment of its source, as though the same were a part of the record made herein."[3]

Based upon this stipulation, and after a careful review of the entire record, the Court has accepted and adopted, with minor amendment, the reasoned opinion of Judge Herlands, which follows.[4]

While the parties agree upon the doctrinal criteria of a reasonable royalty, they differ sharply in their application **[5]** of those principles to the hard specifics of the evidence. The extreme divergence of the parties is reflected in the difference between GP's submission that the reasonable royalty herein should be fixed at a figure somewhere

between a dollar and one-half to three dollars per thousand square feet and USP's claim that the minimum reasonable royalty should be the rate of fifty dollars per thousand square feet.

A comprehensive list of evidentiary facts relevant, in general, to the determination of the amount of a reasonable royalty for a patent license may be drawn from a conspectus of the leading cases. The following are some of the factors *mutatis mutandis* seemingly more pertinent to the issue herein:

1. The royalties received by the patentee for the licensing of the patent in suit, proving or tending to prove an established royalty.

2. The rates paid by the licensee for the use of other patents comparable to the patent in suit.

3. The nature and scope of the license, as exclusive or non-exclusive; or as restricted or non-restricted in terms of territory or with respect to whom the manufactured product may be sold.

4. The licensor's established policy and marketing program to maintain his patent monopoly by not licensing others **[6]** to use the invention or by granting licenses under special conditions designed to preserve that monopoly.

5. The commercial relationship between the licensor and licensee, such as, whether they are competitors in the same territory in the same line of business; or whether they are inventor and promoter.

6. The effect of selling the patented specialty in promoting sales of other products of the licensee; the existing value of the invention to the licensor as a generator of sales of his non-patented items; and the extent of such derivative or convoyed sales.

7. The duration of the patent and the term of the license.

8. The established profitability of the product made under the patent; its commercial success; and its current popularity.

9. The utility and advantages of the patent property over the old modes or devices, if any, that had been used for working out similar results.

10. The nature of the patented invention; the character of the commercial embodiment of it as owned and produced by the licensor; and the benefits to those who have used the invention.

[7] 11. The extent to which the infringer has made use of the invention; and any evidence probative of the value of that use.

12. The portion of the profit or of the selling price that may be customary in the particular business or in comparable businesses to allow for the use of the invention or analogous inventions.

13. The portion of the realizable profit that should be credited to the invention as distinguished from non-patented elements, the manufacturing process, business risks, or significant features or improvements added by the infringer.

14. The opinion testimony of qualified experts.

15. The amount that a licensor (such as the patentee) and a licensee (such as the infringer) would have agreed upon (at the time the infringement began) if both had been reasonably and voluntarily trying to reach an agreement; that is, the amount which a prudent licensee—who desired, as a business proposition, to obtain a license to manufacture and sell a particular article embodying the patented invention—would have been willing to pay as a royalty and yet

be able to make a reasonable profit and which amount would have been acceptable by a prudent patentee who was willing to grant a license.

The drawing of proper conclusions from conflicting evidence [8] concerning the amount of a reasonable royalty has been said to call "for the exercise of judicial discretion by the District Court." *General Motors Corp.* v. *Dailey*, 93 F.2d 938, 942 (6th Cir. 1937). Both sides agree that this Court has a broad range of judgment in evaluating the relevant factors.

In the present case there is a multiplicity of interpenetrating factors bearing upon the amount of a reasonable royalty. But there is no formula by which these factors can be rated precisely in the order of their relative importance or by which their economic significance can be automatically transduced into their pecuniary equivalent. In discharging its responsibility as fact finder, the Court has attempted to exercise a discriminating judgment reflecting its ultimate appraisal of all pertinent factors in the context of the credible evidence.

The parties agree that there was no "established" royalty for USP's Weldtex or GP striated. Consequently, it is necessary to resort to a broad spectrum of other evidentiary facts probative of a "reasonable" royalty.

Two of the earlier and typical cases relied upon by both parties are *Dowagiac Mfg. Co.* v. *Minnesota Moline Plow Co.*, 235 U. S. 641 (1915) and *United States Frumentum Co.* v. *Lauhoff*, 216 Fed. 610 (6th Cir. 1914). In *Dowagiac Mfg. Co., supra* at [9] 648, the Supreme Court said that, where a patentee could not prove lost profits, infringer's profits or an established royalty, the patentee could "show the value by proving what would have been a reasonable royalty, considering the nature of the invention, its utility and advantages, and the extent of the use involved." In *United States Frumentum Co., supra* at 627, the Court referred to the following elements as relevant

to the determination of a reasonable royalty: the nature of plaintiff's patent property; the extent to which defendant took it; and its utility and commercial value as evidenced by its advantages over other devices, by the extent of its use, and by the profits and savings that could be made upon its sale or adoption.

The parties rely upon the traditional array of facts probative of a reasonable royalty. But, in addition, USP places heavy reliance upon a later formulation called "the willing buyer and willing seller" rule.

The rule is pronounced in *Horvath* v. *McCord Radiator & Mfg. Co.*, 100 F.2d 326, 335 (6th Cir. 1938), *cert. denied*, 308 U. S. 581, *rehearing denied*, 308 U. S. 636 (1939), in these terms:

> "In fixing damages on a royalty basis against an infringer, the sum allowed should be reasonable and that which would be accepted by a prudent licensee who wished to obtain a license but was not so compelled and a prudent patentee, who wished to grant a license but was not so compelled."

[10] A variant phrasing set forth in *Faulkner* v. *Gibbs*, 199 F.2d 635, 639 (9th Cir. 1952) reads:

> "The primary inquiry, often complicated by secondary ones, is what the parties would have agreed upon, if both were reasonably trying to reach an agreement." (Footnote omitted.)

The rule is more a statement of approach than a tool of analysis. It requires consideration not only of the amount that a willing licensee would have paid for the patent license but also of the amount that a willing licensor would have accepted. What a willing licensor and a willing licensee would have agreed upon in a supposititious negotiation for a reasonable royalty would entail consideration of the specific factors previously mentioned, to the extent of their relevance. Where a willing licensor and

a willing licensee are negotiating for a royalty, the hypothetical negotiations would not occur in a vacuum of pure logic. They would involve a market place confrontation of the parties, the outcome of which would depend upon such factors as their relative bargaining strength; the anticipated amount of profits that the prospective licensor reasonably thinks he would lose as a result of licensing the patent as compared to the anticipated royalty income; the anticipated amount of net profits that the prospective licensee reasonably thinks he will make; the commercial past performance of the invention in terms of public acceptance and profits; the market to be tapped; and **[11]** any other economic factor that normally prudent businessmen would, under similar circumstances, take into consideration in negotiating the hypothetical license.

As pointed out in an earlier decision herein by this Court (243 F.Supp. at 539), the very definition of a reasonable royalty assumes that, after payment, "the infringer will be left with a profit." It is necessary to consider, as an element in determining the amount of the reasonable royalty, the fact that GP would be willing hypothetically to pay a royalty which would produce "a reasonable profit" for GP. See *Faulkner* v. *Gibbs,* 199 F.2d 635, 639 (9th Cir. 1952).

It is evidence, therefore, that the formulation called the willing seller and willing buyer rule represents an attempt to colligate diverse evidentiary facts of potential relevance. In applying the formulation, the Court must take into account the realities of the bargaining table and subject the proofs to a dissective scrutiny.

In order to establish what USP "would have" demanded and what GP "would have" agreed to pay at the time of the supposititious negotiations, USP has hypothesized certain economic facts having experiential validity "as of" the time of the assumed negotiations.

USP's reconstruction is attacked by GP as a distorted **[12]** fictitional playback that trims the facts to fit USP's

theory. For example, GP describes the trial testimony of USP's witnesses, Antoville and Heilpern, as:

> "insulated from reality by assuming to recapture the mood of 1954 without any such modification as is required by subsequently developed facts. This is the direct result of a basic misconception by plaintiff of the 'willing seller' rule. The entire thrust of the Heilpern-Antoville testimony was to give expression to an opinion of what USP would have asked had there been a 1955 negotiation with GP for a Deskey license.
>
> * * *
>
> Testimony of this nature is irrelevant and, if regarded at all, misleading.
>
> The 'willing seller' rule does not contemplate a confrontation between adverse negotiators and the use of their compaign slogans as evidence.
>
> It does contemplate a marshaling of all of the pertinent facts which, like cards dealt face up, are for all to see. And it then contemplates the suppositious meaning of buyer and seller, who are able, on the basis of the overall round-up of information, to become 'willing' buyers and sellers, at a royalty which will enable the buyer to make and sell at a reasonable profit."

Referring to the decisions expounding the willing seller rule, GP argues that "none of these cases has allowed the suppositious deal between buyer and seller to be infected by a guesswork opinion, unembarrassed by a single fact. And the realism of these cases is in stark contrast with the fictional character of the USP approach."

The Court, having considered GP's critique, finds that [13] USP's presentation is, in decisive respects, rooted in reality. The total record has been sifted to separate the probative evidence from surmise, speculation, "guesswork

opinion", and "campaign slogans". For the most part, where facts have been hypothesized by USP, they are premised on record evidence, direct and circumstantial. This is particularly true with respect to such elements as reasonably anticipated rates of profit, probably volume of sales, normal economic motivations, and the prevailing business outlook, all as of the time of the supposititious negotiations.

Moreover, the Court has taken into account the modifying effect of the facts developed subsequent to 1955 and has assessed them together with all other probative evidence so far as they bear upon the reasonableness of the assumptions and expectations of the parties in their hypothetical negotiations in 1955.

There is some confusion in GP's analysis arising out of the circumstance that USP was unable to prove before the master the amount of its lost profits as damages. GP argues that the same deficiencies of proof which resulted in the master's finding—that USP proved the fact of damage but not the quantum of such damage—similarly vitiate USP's present effort to use, as one of the primary factors for evaluating a reasonable royalty, the profits that it would have reasonably anticipated it would [14] make at the time when a royalty would have been negotiated hypothetically with GP. Similarly, GP is in error when it argues that, because this Court rejected the master's use of GP's infringing profits as the legal measure of damages, evidence of GP's reasonably anticipated profits as of 1955 is irrelevant to the present inquiry.

Certain basic statistics are not in dispute. GP's sales of the infringing striated plywood totalled 15,899,000 square feet and amounted to sales proceeds to GP of $2,547,393. The period of the infringement was March 1955 through September 1958.

The manufacturing part of the infringement began in February 1955. As pointed out by the Court of Appeals (258 F.2d at 127):

> "The plaintiff, Georgia-Pacific Corporation, first manufactured its accused panels in February 1955 and in March delivered a sample to defendant's manager in Newark."

The hypothetical negotiations are, therefore, time-placed in February 1955 and the relevant factors are viewed in that frame of time-reference.

I

USP's Policy to Maintain and Its Actual Maintenance of A Valuable Monopoly On Sales of Striated Fir Plywood. In the Absence of GP's Infringement

USP's undeviating policy was to maintain its patent monopoly on sales of striated fir plywood in the United States. [15] Its exploitation of the Deskey patent through the sale of Weldtex was extremely successful and profitable. The Court of Appeals characterized the commercial success of Weldtex as a factor of "very great significance". 258 F.2d at 133.

USP manufactured and sold Weldtex in substantial quantities since 1946. From April 30, 1951 to January 31, 1955, the annual average sales of Weldtex was approximately $6,000,000. During the last six quarter-annual periods before the infringement, extending up to January 31, 1955, sales of Weldtex totalled $9,325,022, the quarterly average being $1,554,170, compared with quarterly average sales of $1,456,605 during the period from April 30, 1951 to January 31, 1955. During the quarter ending April 30, 1955, the Weldtex sales amounted to $1,601,814.

In February 1955, USP had no reason to anticipate that there would be a significant decline in the demand for Weldtex in the foreseeable future. In fact, no such decline took place for two years subsequent to February 1955.

The commodity most relevant to the subject of USP's monopoly was striated fir plywood. GP argues that the

relevant commodity is "decorative plywood" as a class, of which striated fir plywood (exemplified by USP's Weldtex) was only one of many; that USP's monopoly was diluted by the competition of other decorative plywoods with Weldtex; and that this competition in [16] February 1955 was a factor that significantly tended to reduce the royalty for Weldtex that would have been negotiated hypothetically at that time. In fact, GP contends that the competition that Weldtex faced was so keen that only a minimal royalty can be justified.

Noteworthy is the fact that, despite the allegedly fierce competition between Weldtex and other decorative plywoods, GP deliberately decided to duplicate Weldtex notwithstanding the caveat of GP's own counsel that an expensive infringement suit was inevitable. GP's calculated infringement of Weldtex is an admission by conduct that it regarded Weldtex as occupying a uniquely favorable position in the market.

In this connection, it is also important to consider that, without a license from USP, GP could not legitimately manufacture striated fir plywood and, on the other hand, the granting of a license by USP to GP would place GP in direct and active competition with USP in the United States with respect to striated fir plywood. Obviously, only an adequate royalty would make this proposition palatable to USP.

The separate question—whether there were other competing decorative plywood panels—poses an inquiry into the extent of that competition and its ultimate bearing upon the determination of the amount of a reasonable royalty.

[17] During the period February 1955 to 1958, Weldtex was not confronted with significant competition, except that created by GP's infringing striated. Judge Herlands sharply discounts the testimony before the special master (transcript of the proceedings before the special

master herein referred to as "SM") of GP's witnesses Beggs, L. G. Buckley and Elmendorf, in determining the popularity, life cycle and competitive situation with respect to USP's striated fir plywood. Aside from their lesser credibility than USP's witnesses on the point, the questions put to Beggs, Buckley and Elmendorf were not directed to the relevant period 1955 to 1958 or to February-March, 1955, when the infringement commenced and hence the time when the reasonable royalty would have been negotiated. Beggs was questioned about the period "1955 to 1958" (GP Exh. 18, SM 3360-61). L. G. Buckley was asked a question in the then present tense (1960) with respect to "other wall covering products which are competitive with Weldtex" (GP Exh. 21, SM 3314). The same use of the then present tense was used with respect to Elmendorf, when he was asked about other products competing with Weldtex (GP Exh. 22, SM 3300, 3301). A similar irrelevant time period is reflected in the testimony of Monroe Pollack, then an officer and sales director of USP, when he described the competition "in 1957 or thereabouts" (GP Exh. 25, SM 389, 415) or "in about late 1958 or early 1959" (GP Exh. 25, SM 388).

[18] The evidence that, in February 1955, Weldtex was without keen competition is corroborated by admissions from GP's own files relating to times both before and after the hypothetical negotiations. For example, GP's attorney, in a letter dated July 23, 1953, said that Weldtex "has been without any substantial competition" (USP Exh. 14a, at 1887a). Five years later, on May 13, 1958, a ranking representative of GP (Leonardson) wrote that Weldtex "is certainly one product on which they [USP] have very little competition" (USP Exh. 6).

While in a generalized sense Weldtex was only one of a number of decorative wall panels that were competitive (*e.g.*, brushed fir plywood, Philippine mahogany plywood and embossed plywood) the Court accepts Mr. Heilpern's testimony that, to determine whether and to what

extent various plywood and similar products were competitive with each other, it is necessary to know their respective price ranges and the respective markets that had been developed for them (Tr. 222-40). The Court is convinced that, in February 1955, the commercial value of Weldtex was not undermined by competition (Tr. 223-30, 234-35, 238, 330-31).

Particularly convincing on the point of the absence of substantial competition is the testimony of Monroe Pollack, USP's vice president in charge of sales from 1950 to 1957 (GP Exh. 25), [19] SM. 369, 383-388) which is corroborated by the Antoville testimony (Tr. 349-357) and the striated fir plywood statistics (USP Exhibit 1). Pollack testified that Weldtex represented a unique decorative panel "which, to a large degree, were [was] non-competitive" and that there was no competition in this particular field until late 1958 or early 1959.

The master found, and this Court approved the finding, that Weldtex and GP's infringing striated plywood were competitive with each other to a greater degree than with other decorative panels. 243 F.Supp. at 510, 511; MR 105. Competition in the form of imported products was not significant in February 1955. Such competition assumed substantial proportions only in 1957 or thereabouts. Mr. Heilpern's testimony proves that, while there were a number of other competitive decorative wall panels on the market during the period of infringement, they were not substantially significant as competitive items with Weldtex. This is corroborated by the fact that USP was able to maintain the volume of its sales at original prices. Mr. Antoville's credible testimony proves that, in 1955, the other decorative plywoods did not constitute a substantial competitive factor.

The Court reiterates its prior finding that, at the time of GP's infringement, Weldtex was relatively insulated from competition. See 243 F. Supp. at 510, 511.

[20] It follows that, in February 1955, the time of the hypothetical negotiations, the determination of a reasonable royalty would have been strongly influenced by the then dominant market position of Weldtex. While this element cannot be converted into commensurable arithmetical terms, it is a highly significant fact in the mix of factors.

The evidence referred to must be considered in conjunction with USP's policy not to license anyone to sell Weldtex in the United States or in any other area where USP was capable of making its own sales. In the licenses that USP did grant for the manufacture of Weldtex in the United States, USP stipulated that the licensee could sell only to USP or USP's designee.

The master found that USP had the financial and physical capacity to market an additional amount of striated fir plywood equaling 80% of the amount infringingly sold by GP. While the master and the Court found that USP had possessed that capacity, the master found; and the Court approved the finding, that the proof was insufficient to establish that USP would have in fact manufactured and sold any measurable quantity of Weldtex between February 1955 and September 1958, in addition to the quantities of Weldtex which they did actually manufacture and sell during that period.

What is pertinent for present purposes is that, at the [21] time of the hypothetical negotiations, USP did have the physical and financial capacity to market an additional 12,784,000 square feet of Weldtex between March 1955 and September 1958 and that, when it would have entered into the hypothetical licensing agreement with GP, it was not doing so because it could not have produced additional Weldtex itself.

Next to be considered is the matter of the market demand for Weldtex in or about February 1955 and the then reasonable anticipation as to the continuance of that customer popularity. GP argues that Weldtex had passed its apogee just before GP began its infringing sales of striated

plywood. Citing sales statistics, GP claims that Weldtex lost standing in each succeeding year since early 1955.

The more persuasive fact is that, in February 1955, there was no reason to anticipate any significant decline in the foreseeable future in the demand for the striated fir plywood on which USP had a legal monopoly. USP executives in fact anticipated no such decline. Sales of striated fir plywood were still rising in February 1955, and did not fall off significantly until about two years later. During six of the eight quarterly periods following the start of the infringement—up to April 30, 1957—the total combined sales of striated fir plywood by USP and GP exceeded USP's quarterly average over the period April 30, 1951, up to the beginning of the infringement. For the [22] eighth quarter following the commencement of the infringement the combined sales by USP and GP were 88.2% of USP's pre-infringement average. For the entire four year period following the infringement up to January 31, 1959, the total striated fir plywood sales was more than 80% of the sales during the four years prior to the infringement.

USP recognizes the abstract proposition that specialty plywood products tend to go through cycles of popularity. But the record shows that in February, 1955 the popularity of striated fir plywood had not yet begun to decline; that (as the credible testimony of Heilpern and Antoville indicated) no one familiar with it thought it had; and that no one, least of all GP, considered that its commercial value and future prospects were anything but attractive. The very circumstance that GP decided to manufacture and sell infringing striated fir plywood reflects its sanguine view that this was a profitable item despite the almost certain litigation that would ensue.

The contemporaneous documentation indicates that GP's entrance into the striated fir plywood field met with enthusiastic sales inception; that shortages soon arose;

that re-orders for the product were obtained; and that even in 1958 GP's pricing of striated fir plywood was holding up.

The evidence on which GP relies to show that Weldtex [23] had lost its popularity was not focused on or near February 1955 (the time of the hypothetical negotiations) nor on the year 1955. For example, GP's witness Beggs, in testifying as to the decline of the market for striated plywood, was answering a question that was pegged to the time period of "1955 to 1958" (GP Exh. 18, SM 3363-64). The same period was used in the framing of a question to GP's witness L. G. Buckley about the "status of the life cycle" of Weldtex's popularity (GP Exh. 21, SM 3317); and, interestingly enough, Buckley answered that the peak of striated fir plywood had not yet been reached by 1955 (GP Exh. 21, SM 3317-18).

Similarly, the testimony of the retail lumber dealer Levine, concerning a "change of style" away from striated fir, was given in answer to questions concerning the level of Weldtex sales in 1961, as compared with the level in "past years" (GP Exh. 24, SM 3673-74).

The Court, therefore, finds that, in or about February 1955 and for approximately two years thereafter, the popularity of striated fir plywood was still a choice commodity; that it was viewed by USP and GP as one that would bring in substantial profits; that it was desirable in the eyes of GP; and that because GP coveted it, it deliberately proceeded to manufacture its own striated fir plywood imitation of Weldtex. Consequently, [24] in considering the ultimate question of reasonable royalty, striated fir plywood must be evaluated in the foregoing context.

The entire and actual sales picture of striated plywood during the period from February 1955 through September 19, 1958 has been considered as a circumstance together with all of the other evidence in the case. Taking all of

the historical facts into consideration the Court finds that, for purposes of determining a reasonable royalty, striated fir plywood was considered by the parties as a readily salable and highly profitable commodity; and that striated fir plywood had not lost its commercial value as a popular product at the time of the hypothetical negotiations.

The circumstance that the Deskey patent (which had issued on June 9, 1942) had only a little over four years to run from February 1955 until it expired on June 9, 1959 (GP Exh. 15) and the argument of GP that the reasonable royalty should therefore be minimal (as testified to by GP's witness L. G. Buckley, SM 3322 [GP Exh. 21]), are neutralized by certain practical business considerations: (1) because striated fir plywood was a product of demonstrated great commercial success, GP did not assume any risk in this respect; (2) a royalty calculated as a percentage of footage actually sold or volume of actual sales, as distinguished from a license fee expressed in advance as a [25] flat amount of dollars, would mean that GP did not assume any fixed financial obligation (Tr. 373-74 [Antoville]; Tr. 295-96, 309, 313 [Heilpern]); (3) the opportunity to engage in the sale of a patented product even several years before the patent's expiration would constitute a definite advantage to GP who intended to market the product after the expiration of the patent (Tr. 386-87 [Antoville]); and (4) GP could get into the profitable production of striated fir plywood with only the modest investment required for a striating machine, amounting to approximately $12,000 to $15,000 (Tr. 148-49, 288-89, 323, 344-45).

II

The Factor of the Profitability of Weldtex

The amount of profits that USP was making and could (in February 1955) reasonably expect to continue to make on its sales of Weldtex by licensing no one to sell Weldtex

in the United States is of major relevance to the determination of the amount of royalty that USP would accept from GP and that GP would offer. USP was enjoying the profits of a readily salable product. USP was in a position to retain the entire market on striated fir plywood for itself. The result of GP's infringement was to interfere with that monopoly and, as planned, [26] to put GP in direct competition with USP's Weldtex throughout the period of infringement. The hypothetical license would have been one whereby GP would have been permitted to market striated fir plywood throughout the United States (as GP infringingly did).

GP admits that "one of the most pertinent factors in ascertaining the value of a patent for royalty purposes is the ability or inability of the invention of the patent to make money." GP does not claim that USP's profits on its Weldtex sales are not a proper factor for consideration in determining the amount of a reasonable royalty.

In the hypothetical negotiations, USP would have been reasonable in taking the position that it would not accept a royalty significantly less than the profit it was making by its policy of licensing no one to sell striated fir plywood in the United States.

In searching for and considering the available evidence of Weldtex's profitability—evidence claimed by USP to exist but whose existence in the record is denied by GP—it is necessary to distinguish sharply that inquiry from the entirely separate issue of the amount of USP's damages in the form of lost profits attributable to GP's infringing [27] sales. That latter issue of lost profits as the measure of damages had been litigated before the special master who found (and this Court affirmed that finding, 243 F.Supp. at 510) that USP had failed to prove that it had sustained a measurable amount of lost profits caused by GP's infringing sales after February 1955 although USP had proved the fact of such damages as distinguished from its quantum. 243 F.Supp. at 512-13.

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What must be considered new is the fixation of a reasonable royalty—a determination prescribed by the statute and made necessary for the very reason that USP was unable to prove the quantum of its damages in the form of lost profits. What must be considered now as one of the elements, *inter alia,* relevant to the determination of the amount of a reasonable royalty, is the rate of profits that USP was making on Weldtex at the time GP began its infringement, and not the amount of profits that USP lost as the result of GP's infringing sales—profits that USP made and was making on and before February 1955 and that it reasonably anticipated it would continue to make, not the profits that it actually lost after February 1955. The statute created the recovery of a reasonable royalty for the very purpose of affording fair compensation in cases such as this, where the victimized [28] patentee is unable to prove that he lost a measurable amount of profits as the result of the infringement.

It is clear, then, that under the statute a reasonable royalty is an alternative way of recovering general compensatory damages and that it is not equitable or commensurable with actual damages computed in terms of demonstrably proved lost profits. This distinction must be emphasized because GP has obfuscated the issue by coalescing the two different concepts.

Still another preliminary clarification of the issue is needed.

GP makes the dual argument that "the proofs of 'profitability' of Weldtex are so unsubstantial, or are so unrelated to Deskey value that the backlash is proof that there is no Deskey value". The foregoing statement, phrased as it is in the disjunctive, embraces two independent points: (1) that USP has failed to prove the profitability of Weldtex and (2) that USP's evidence of Weldtex's profitability is "unrelated to Deskey value"—the latter contention being one that poses the issue of apportionment

and that will be discussed separately herein in terms of the value of the Deskey invention.

[29] In this juncture, we are considering the issue of the profitability of Weldtex and the record evidence bearing upon that issue.

According to GP, Mr. Heilpern based his figures of value on USP Exh. 58 (Tr. pp. 141-45); Mr. Antoville "simply generalized about 'its great profitability' (Tr. p. 339), and 'the high profitability' " (Tr. pp. 353-55); "this record provides no clue as to what 'great profitability' or 'high profitability' means"; and "USP has failed utterly to give any semblance of meaning to the word 'profitability' " using "a false yardstick".

Mr. Heilpern testified that the profit on Weldtex sales was "extremely generous" (Tr. 132), "very substantial" (Tr. 138), and "extremely profitable" (Tr. 139).

That Weldtex commanded a high selling price in relation to its low manufacturing cost is evidenced by the statement of USP's former president and chairman of its board, as quoted by Mr. Heilpern: "We made a silk purse out of a sow's ear" (Tr. 132-33, 243, 247-51).

A considerable amount of the Heilpern testimony was devoted to explaining the computations contained in USP's Exh. 5B (the same as USP's Exh. 38A in the proceeding before [30] the special master). The data in this exhibit includes, *inter alia*, the prices and costs involved in USP's actual production and sale of Weldtex and, hence, provide some basis for computing the amount or rate of USP's profit on that production and sale.

Mr. Antoville testified that Weldtex had "great profitability" (Tr. 339); that it was "a highly profitable item" because it sold for a considerable premium over the price of one quarter AD panel and yet "cost practically no more to make" (Tr. 339-41) and that Weldtex possessed "high profitability" (Tr. 353).

During the years 1952 to 1958, Weldtex was manufactured at two sources: the contract mills where approxi-

mately 80 per cent of USP's total Weldtex was produced and sold to USP by said mills; and USP's own Seattle plant where approximately 20 per cent of the Weldtex was produced (GP Exh. 8). On an incremental or differential cost accounting basis (as distinguished from an absorption-cost accounting basis), USP made an average profit of $54.25 per thousand square feet with respect to the Weldtex produced by USP from the contract mills; and USP made an average profit of $86.16 per thousand square feet with respect to the Weldtex produced at USP's Seattle plant. When these two profit figures are weighted on the [31] basis of the 80 per cent to 20 per cent production ratio, the ultimate result is $60.63 as the average rate of profit per thousand square feet earned by USP on all its Weldtex sales at the time of the infringement, computed on an incremental cost accounting basis.

Incremental cost accounting, however, is not considered by the Court as appropriate in determining the actual profitability of Weldtex during the years prior to and up to February 1955. Arguably, that method of cost accounting might be appropriate in evaluating the factor of suppositious profit on additional hypothetical sales that USP would anticipate and preserve for itself by not licensing GP. But the absorption-cost basis is more reliable and pertinent to a determination of the historical profitability of Weldtex during the years prior to and up to February 1955.

Computed by the absorption method, USP's average rate of profit on its Weldtex sales was $48.64 per thousand square feet at the time of the infringement.

USP argues that, independently of USP Exhibit 5B, the Antoville and Heilpern testimony establishes that $60.63 is the rate of profit per thousand square feet of Weldtex sold, and that that figure is "conservative". The Court has considered the Antoville testimony (*e.g.*, Tr. 340-41, 343-44)—which is the predicate for USP's contention that the overall [32] profit on Weldtex was approxi-

mately $68.00 per thousand square feet—and the Heilpern testimony (*e.g.*, Tr. 135)—which is the predicate for USP's contention that the overall profit on Weldtex ranged from $52.00 to $60.00 per thousand square feet. That testimony does not impress the Court as sufficiently persuasive to warrant a finding other than that USP's average actual profit on Weldtex sales was approximately $48.00 per thousand square feet; and the Court so finds.

III

The Asserted Factor of Increased Potential Profitability via Operations of USP's Plant at Eugene, Oregon.

Another factor—in addition to the *actual* profitability rate of Weldtex—urged upon the Court by USP as relevant to the determination of a reasonable royalty is "the higher *potential* profits" that USP anticipated it could and would make by producing Weldtex at its plant at Eugene, Oregon, which it acquired in February 1955 (Tr. 137). Mr. Heilpern testified that these estimated higher profits were among the factors that "would have been taken into consideration in negotiating a royalty agreement or a license agreement with Georgia-Pacific in 1955" (Tr. 137, 145).

However, it must be noted that the idea of producing Weldtex at Eugene was specifically considered by [33] USP only in mid-1955, according to USP's president, Mr. Brewer. Both the special master and this Court have found that USP failed to prove that it would have manufactured Weldtex at Eugene in the absence of GP's infringement. 243 F. Supp. at 510-11.

Considering all the relevant evidence, the Court's opinion is that the proofs about USP's earning higher potential profits through the prospective operations of the recently-acquired plant at Eugene are not sufficiently reliable and persuasive to warrant a finding that that particular

factor would have played a significant part in the formulation of a reasonable royalty at the hypothetical negotiations in February 1955.

IV

The Factor of USP's Profits Via Collateral or Convoyed Sales.

Another element emphasized by USP as one that it would have taken into account in the hypothetical negotiations to fix a reasonable royalty was the profits it was making on collateral or convoyed sales of other USP products that were generated by Weldtex sales.

Both the special master and the Court have found that USP had failed to prove that it would have earned [34] a measurable or specific amount of additional profits on collateral sales in the absence of GP's infringement; and thus USP had failed to sustain a recovery of damages in any assessable amount under the heading of such lost profits. 243 F. Supp. at 512.

There is logic to USP's present argument distinguishing between the profits derivable from collateral or convoyed sales as one of the elements relevant to the fixation of a reasonable royalty (the current issue) and, on the other hand, the loss of profits from such sales as part of actually sustained damages (the issue previously litigated before the master). The fact of the existence and the substantiality of such profits and the fact of the loss of some of those profits in the event that GP were licensed to sell striated fir plywood were established by USP. And such facts have some bearing upon the determination of a reasonable royalty.

It would have been reasonable on USP's part in February 1955 to have expected to make future profits through collateral or convoyed sales, which USP would have antici-

pated losing at least in part by licensing GP to make striated fir plywood. Hence, "this expectant loss is an element to be considered in retroactively determining a reasonable royalty." *Egry Register Co.* v. *Standard Register Co.*, 23 F.2d 438, 443 [35] (6th Cir. 1928); *Union Carbide Corp.* v. *Graver Tank & Mfg. Co.*, 282 F.2d 653, 671-72 (7th Cir. 1960), *cert. denied*, 365 U. S. 812 (1961).

The testimony of Mr. Heilpern (Tr. 138-39, 323) and Mr. Antoville (Tr. 347-48, 353-55, 370) supports the finding that that element would have influenced them importantly in negotiating the hypothetical royalty with GP; and the Court so finds. The import of their testimony is corroborated by a similar statement emanating from GP's vice president in charge of sales, J. L. Buckley (USP Exh. 8).

The profitability of the collateral or convoyed sales was significant not only from the viewpoint of USP's bargaining position but also in terms of GP's own expectations of an economic advantage, obvious both to USP and GP. GP's reasonable expectation of collateral profits from convoyed sales of products sold along with its striated fir plywood is a factor in the hypothetical negotiations. *Union Carbide Corp.* v. *Graver Tank & Mfg. Co.*, *supra*. In point of fact, GP sales of striated fir plywood did generate collateral sales (USP Exhs. 8; 14c; 18, par. 12.B; James L. Buckley's testimony before the special master, SM 2590).

The record therefore leads to the finding that consideration of the collateral sales factor by both parties [36] would have tended to increase significantly the amount of the reasonable royalty hypothetically negotiated between them; and the Court so finds. The record, however, does not enable the Court to quantify the monetary amount of that economic significance in terms of a dollar and cents figure although the factor of profits on collateral sales did possess the economic significance already pointed out.

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V

The Factor of the Substantial Profits GP Would Reasonably Have Expected to Earn on Its Production and Sale of Striated Fir Plywood

GP was most eager to manufacture and sell striated fir plywood because, in the words of its attorney, it had been "extremely successful . . . without any substantial competition" (USP Exh. 14a).

GP would not have been at a significant competitive disadvantage in marketing striated plywood because (1) GP's striated plywood was exactly the same product as Weldtex for which USP had developed the market; (2) GP had contacts with all of USP's customers; and (3) GP's striated plywood would have been welcomed by the trade as an additional source of supply that would make the market competitive (Tr. 371-72; USP Exh. 9).

[37] This Court found that, if a one-quarter inch AD blank is "upgraded" by being converted into a "specialty", "the possibility of a substantial profit is presented", 243 F. Supp. at 507; and that "GP's purpose in producing GP striated" was to make a product that would yield "a substantial profit", *supra*.

The Court of Appeals not only noted the "profitable market" that USP had developed for Weldtex but also quoted testimony that GP had begun to manufacture striated fir plywood because it was "extremely advantageous from a profit standpoint". 258 F.2d at 133-34.

The special master found "that the production of GP striated was planned as a high profit item". (MR 80.)

GP was willing to assume substantial risks and costs in order to make and sell striated fir plywood without authority from USP. The Court finds that GP would have been willing to pay a substantial royalty to USP in order to obtain reasonably anticipated large profits without the risk of infringement liability.

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The Court has considered the evidence in order to quantify the amount of profits that GP would reasonably have expected, at the time of the hypothetical negotiations, to earn on its production and sale of striated fir plywood. This is a [38] different question from the amount of infringing profits that GP actually did make—$685,837, according to the special master.

GP took, as its own guide for the purpose of profit expectations, the profit that USP was then making on its Weldtex sales. The evidence supports the inference that GP was able to estimate, fairly accurately, the amount of USP's costs on Weldtex; and that GP knew that its own costs would not be significantly higher.

It is undisputed that GP was also well aware of both the warehouse and the direct mill prices of Weldtex (Tr. 136). GP would have expected to sell its own striated fir plywood at the same prices (as, in fact, it did).

Note has already been made of the fact that, in 1955, a striating machine cost $12,000 to $15,000 (Tr. 148-49).

GP had a good idea of what USP's profits on Weldtex were, and could reasonably have expected that it would make at least comparable profits on its own striated plywood.

In fact, there is some basis for the view that GP would reasonably have expected to enjoy a higher average profit margin than USP's because GP's production was predominantly at GP's own mills (where average striated fir costs were lower than at contract mills, whereas about 80 per cent of Weldtex [39] in the years 1952 to 1955 came from contract mills.

In any event, since the Court has found that USP's average rate of profit on its Weldtex sales was $48.64 per thousand square feet at the time of the infringement, the Court also finds that GP would reasonably have expected to earn on its manufacture and sale of striated fir plywood profits at least approximately the same rate.

Moreover, this figure of $48.64 per thousand square feet must be amplified by virtue of the collateral sales factor insofar as that factor would have reasonably entered into GP's thinking at the time of the hypothetical royalty negotiations.

VI

The Factor of the Profits That GP Would Reasonably Have Expected to Earn on Collateral or Convoyed Sales.

The Court finds that, at the time of the hypothetical negotiations, GP would reasonably have expected to derive substantial additional profits from collateral sales of other products (particularly non-specialty items) sold along with its striated fir plywood, a specialty item. (USP Exh. 8, report of GP's vice president, James Buckley, dated June 29, 1956; USP Exh. 14c, Letter of GP's attorney, dated February 8, 1954; USP Exh. 18, par. 12.B; testimony of James Buckley, SM 2590; [40] testimony of Heilpern, Tr. 138-39, 223; testimony of Antoville, Tr. 353-55.) This is a significant factor to be considered by the Court in determining the reasonable royalty because it has the logical tendency, as a matter of simple economics, to increase the amount of the reasonable royalty.

This factor is relevant to the question now under consideration notwithstanding the fact that USP's proof was found insufficient to show either a measurable amount of collateral profits diverted from it to GP (and, hence, recoverable as lost profits) or any specific amount of collateral profits earned by GP as the result of the sale of other products generated by the sale of GP striated.

Both the hypothetical licensor's expectant loss of collateral sales (*Egry Register Co.* v. *Standard Register Co., supra*) and the hypothetical licensee's expectation of profits on its collateral sales (*Union Carbide Corp.* v. *Graver Tank*

& Mfg. Co., supra) are relevant elements to be considered in determining a reasonable royalty.

If GP had been negotiating with USP for a license, GP would have taken into consideration all advantages which might accrue to it in determining a royalty which it would be willing to pay. A license to sell the patented striated fir plywood would have enabled GP to expand its business, increase [41] its sales of non-infringing materials and thereby increase its profits. Absent a license, GP accomplished the same result by the sale of its infringing GP striated.

In view of the foregoing, the figure of $48.64 per thousand square feet of striated fir plywood sold, representing GP's probable expectation of profit on that item alone, would not reflect the factor of GP's expectation of profits on collateral sales generated by the sale of striated plywood.

The evidence does not permit an inference as to the quantum, even approximately, of the profits derivable from collateral sales by GP. To assess this factor separately and monetarily by assigning a dollar and cents valuation to it would involve impermissible conjecture and speculation. In the circumstances, therefore, the indisputable fact that such profits would be generated in a significant amount by the sale of striated fir plywood is treated by the Court as a factor strengthening USP's bargaining position and supporting the reasonableness of the figure of the profit rate on the sale of striated fir plywood.

[42]

VII

The Amount of the Reasonable Royalty.

a) *GP's argument that the value of striated fir plywood was substantially attributable to elements other than the Deskey patent.*

This case does not permit application of the principle of apportionment inasmuch as the Deskey patent was not one for an improvement on an article nor was GP's in-

fringement of a patented feature sold together with unpatented parts. Decisions illustrating the rule applicable to patented improvements or to patented parts of articles also embodying unpatented parts are not apposite for the reason that the Deskey patent covered and Weldtex represented a marketable article—a panel of striated fir plywood —as an entirety.

The Deskey patent, though using the prior art to a degree, gives substantially the entire value to the structure represented by the infringing article. The present case well illustrates Judge Learned Hand's observation that "[p]atent infringement often involves nice and casuistical questions. . . ." *Cincinnati Car Co.* v. *New York Rapid Transit Corp.*, 66 F.2d 592, 593 (2d Cir. 1933).

In terms of a structural test, for example, the contribution of the Deskey invention cannot be isolated as a separate physical part. The invention permeated the plywood panel [43] to such a degree that it should be considered as covering the article as a whole. In this situation, the invention was not only for an improvement.

There is a basic distinction between a patent which is only a part of a machine or structure and which creates only a part of the profits and, on the other hand, a patented article or a patent which gives the entire value to the combination or an article patented as an entirety. Consequently, it is necessary to determine whether the invention extends to and affects the whole article, giving it its essential marketability, or whether it is only for an improvement. This distinction and the related problem of apportionment are expounded in such cases as *Westinghouse Elec. & Mfg. Co.* v. *Wagner Elec. & Mfg. Co.*, 225 U. S. 604 (1912); *Cincinnati Car Co.* v. *New York Rapid Transit Corp., supra; Rockwood* v. *General Fire Extinguisher Co.*, 37 F.2d 62 (2 Cir. 1930); and *Egry Register Co.* v. *Standard Register Co., supra.*

Inspired by the distinctions discussed in the above-cited cases, GP attempts to attenuate the significance and value of the Deskey patent by arguing that approximately 50 per cent of the value of striated fir plywood (GP's proposed finding of fact #6) was not essentially attributable to the Deskey patent, but rather was allocable to the method employed [44] on the three-ply panel to "balance" the striation of the face ply and to its decorative effect.

USP's method of "balancing" was covered by the Bailey patents (involving the use of an initially heavier ply for the exposed face) whereas GP's method was covered by the Leonardson patent (involving the cutting of wide channels at regular intervals in the reverse ply to remove enough wood to balance the striation of the face). 258 F.2d at 127, 129. Without some such balancing, the fir plywood panel (being made of soft wood like Douglas fir) would have warped and been unsalable. (See, *e.g.*, GP Exh. 19, SM 3664-65 [Brewer]).

Since USP and GP were the only manufacturers of striated fir plywood, the methods of avoiding warping that were used were, understandably, limited to the two methods taught by Bailey and Leonardson. Other methods, however, were commonly known and readily and economically available to solve this easy mechanical problem. SM 3597-98 (Brewer). They simply were not used by either USP or GP.

Many different and long-standing methods had been devised to solve the warping problem. But the solution of that problem did not evolve or create any commercially successful article like "Weldtex". The birth of "Weldtex" had to await the solution of the other problems of checking and edge [45] separation. This was Deskey's achievement.

The Court of Appeals was fully aware of the warping problem and how it had been solved prior to Deskey. That Court pointed out that "warping and curling" had been attacked in the prior art by the Hansen patent (by incising the face of the veneer panel with short slits); by three

Maurer patents (by incising the face of the panel); and by two Elmendorf patents (by rupturing the veneer and then mounting it on an elastic plastic substance or on a flexible backing); and that those skilled in the art "were familiar with . . . incising and rupturing as a means of controlling warping" (258 F.2d at 129). The Court of Appeals observed that striation "does not purport to have a significant effect on warp control" (258 F.2d at 129) and that, in fact, "striation increases the tendency of the entire panel to warp or curl." (258 F.2d at 129). The Court then declared that the "contribution of the Deskey patent" lies "beyond the area" of the problems of warping or curling caused by striation. (258 F.2d at 129).

Balancing the panel to prevent warping was no significant problem to anyone possessed of the normal plywood industry skills. It is noteworthy, moreover, that the Deskey patent itself expressly suggested a solution to that recognized problem when it pointed out that the back ply as well as the [46] face ply of the panel could be grooved. See patent, in USP Exh. 31 at 1, col. 2 (describing Fig. 2), at 2, col. 1, at 2, col. 2; Tr. 276-78, 305 (Heilpern); SM 3590-91, 3630-33 (Brewer) (USP Exh. 31).

GP has offered no proof, either before the special master or this Court, to establish that the Leonardson patent contributed any value to the infringing article. On the other hand, UPS's president, Mr. Brewer, testified (SM 3581-3667; USP Exhs. 28, 31) persuasively that Leonardson contributed very little value to GP striated; that Leonardson merely taught another way to solve an easy problem; that the Leonardson non-warping feature would have to be valued on the basis of the economy that it effected over the cost of controlling warpage by one of several other unpatented methods such as sanding or incising (SM 3597-99, 3608-15, 3617); and that the cost of using these other methods would vary from approximately $1.00 to $2.00 per thousand square feet, and the cost of the necessary

incising machine would be about $6,000. SM 3617-19. Mr. Brewer was corroborated by the trial testimony of Mr. Antoville. Tr. 361-65.

The special master found (MR 89-91), and this Court reaffirms and adopts the findings, that any economy effected by the Leonardson patent (and any consequent value ascribable [47] to the balancing function or that patent) was minimal; that GP has offered no proof of value attributable either to the prior art or the Leonardson patent; that GP has not offered any further evidence on that subject before this Court; that the matter of achieving balance through any of the readily available and commonly known methods was unimportant because the fir plywood panel has no commercial value at all unless the other side were striated; that whichever means was used to achieve the balancing of the panel the sales price of the striated fir plywood panel would not have varied; that it is the value of the striated face that created the value of the striated fir plywood panel; that the entire market value of Weldtex and GP striated was attributable to the Deskey patent; and that if any value was attributable to the contribution made by the Bailey patents, in the one case, and by the Leonardson patent, in the other, it would be of minimal character, having little or no influence upon the amount of a reasonable royalty in this case.

There is no basis for GP's argument that the value of striated fir plywood is significantly attributable to elements other than the Deskey patent. Such a proposition is as illogical as a claim that, because an automobile needs wheels to run, an automobile motorized by a patented electronic [48] device owes its substantial value to the wheels.

The Court reaffirms and adopts the special master's findings that Weldtex was an entity in itself, not a combination of things or elements separable in value or profit-producing potentialities; the commercial success of Weldtex was the result of the deep striation of the face, Deskey's

invention, which created a new kind of plywood panel, a novel and useful work of craft and art; that no thing or structure or entity, part of Weldtex or of GP's striated, is separable in the manner suggested by subparagraph "c" of *Westinghouse Elec. & Mfg. Co.* v. *Wagner Elec. & Mfg. Co., supra* at 614-15; that the non-warping or balancing feature of the Leonardson patent or the Bailey patents represents no separable "thing" within the meaning of said subparagraph "c" of *Westinghouse* because it made no substantial or significant contribution of value to the creation of the profits from the sale of the striated fir plywood; that substantially the entire market value of Weldtex and the infringing GP striated is attributable to the Deskey patent; and that, if any value were allocable to either the Bailey or the Leonardson patents, it would be minimal.

[49] b) *The significance of the decorative appearance of Weldtex and GP striated in relation to the question of the amount of a reasonable royalty.*

Of course, Weldtex had a pleasing appearance and decorative effect. The Court of Appeals, in alluding to "the decorative appearance of Weldtex" as having "contributed toward this [Weldtex's] commercial success" (258 F.2d at 131), observed that "this commercial success may in considerable measure be due to the decorative appeal of Weldtex and the effectiveness of the striation in masking joints and checks." (258 F.2d at 133.) It is necessary to determine the relationship of these facts to the issue of reasonable royalty.

The decorative appearance or "decorative effect" of Weldtex was not *per se* a patented element of the Deskey invention. Upon that circumstance as a foundation fact, GP erects the argument that whatever value of Weldtex may be attributable to its decorative appearance must be disregarded in determining the amount of a reasonable

royalty for the use of the Deskey patent because "decorative appearance" is a feature beyond the scope of that patent.

The face of GP's infringing striated fir plywood was, from the viewpoint of deep striations and appearance, structurally and esthetically a replica of USP's Weldtex. [50] This was the inevitable result of the infringement because the decorative effect or appearance of Weldtex and GP striated is an inherent, indivisible, and inextricable characteristic of Deskey's deep and random striations.

The originality or uniqueness of Deskey's striation from the viewpoint of inventive novelty was the deep and random grooving in relation to Douglas fir and other soft woods that solved the problems of checking and edge separation (the tendency of abutting panels to draw away from each other). 258 F.2d at 126-127. The heart of Deskey's invention was its effective solution of the old and very real problems of checking and edge effects by deep striation (258 F.2d at 130, 134); and "deep grooving is an inventive concept" in relation to soft woods like Douglas fir. 258 F.2d at 135. Because USP was able "to warrant Weldtex against checking", it "has used this feature as *an essential element* of its commercial production". 258 F.2d at 131. (Emphasis added.) "Indeed, . . . it was a demonstration of the effectiveness of the Deskey patent in meeting these two problems which caused the Patent Office to issue the patent." 258 F.2d at 129.

But the Court of Appeals went further and addressed itself to the subject of decorative appearance. Declaring that the patent covers more than a decorative panel, [51] (258 F.2d at 130), the Court of Appeals pointed out that prior to the Deskey patent, striation and grooving of wood products, including plywood, had been used "for decorative effect" and were "well known". 258 F.2d at 128, 129.

The Court of Appeals pointed out, however, that Deskey's concept of striation *turned a "decorative effect . . . to a utilitarian advantage* by cutting deeper into the surface

of the plies". 258 F.2d at 131. (Emphasis added.) This was something not taught by the prior art; Deskey solved problems (*i.e.*, checking and edge separation) "without loss of other features". 258 F.2d at 132. The Court explicitly recognized that "*Basic to the Deskey patent* is the fact that plywood panels covered by the claims are to be used *where an esthetically pleasing appearance is essential.* This *emphasis on appearance* raises several problems". 258 F.2d at 129. (Emphasis added.)

In discussing Weldtex's commercial success, the Court of Appeals stated that, over a sixteen-year period (1940-1956), Weldtex "has enjoyed an amazing success, with total sales in the United States exceeding $56,000,000"; that "neither checking nor edge separation has been a source of complaints from users of Weldtex"; and that "*the advantages stressed in the Deskey patent have played a significant role* in the widespread and continued public acceptance of the product." (258 F.2d at 131.) [52] (Emphasis added.)

On the same subject, the Court of Appeals also expressed the following opinion:

> ". . . this commercial success may in considerable measure be due to the decorative appeal of Weldtex and the effectiveness of the striation in masking joints and checks. It seems obvious, however, that *effective relief of stresses substantially contributed* to that success because striation was recognized as a novel and inventive solution to old problems, meeting a long standing need." (258 F.2d at 133.) (Emphasis added.)

The fact that Weltex's decorative appearance, a non-patented feature, "contributed toward" its commercial success and that "the decorative appeal of Weldtex and the effectiveness of the striation in masking joints and checks" may account "in considerable measure" for its commercial

success—as pointed out by the Court of Appeals, 258 F.2d at 131, 133—has been given due and appropriate consideration and weight by this Court in evaluating all of the evidence bearing upon the question of the amount of a reasonable royalty, especially in light of the explicit references by the Court of Appeals to the subject of the decorative appeal of Weldtex.

Though it be reiteration, we draw attention to the view expressed by the Court of Appeals (quoted above) that "an esthetically pleasing appearance is essential" for plywood panels and that this "emphasis on appearance" is "[b]asic to [53] the Deskey patent". 258 F.2d at 129. The quoted language must, of course, be read and construed in factual and literary context with the other sections of the Court of Appeals' opinion, especially its sharply made point that Deskey turned a decorative effect to a utilitarian advantage thereby successfully elevating the prior well-known art of striation only for decorative effect to the height of invention.

In attempting to allocate to Weldtex's decorative appearance its proper economic significance in relation to the fixation of a reasonable royalty, the Court is mindful of the salient fact that the decorative appearance of striated fir plywood made under Deskey's patent was not created by an additive, that is, by some auxiliary substance or process accessory to the striations. The decorative effect represented the automatic and spontaneous appearance of the striations themselves. The deep striations, their decorative effect and their innovative utilitarian results were coupled in an indivisible union of form and function. That union cannot be split by the fission of formal logic to yield separate components of precisely measurable economic significance.

The Court has considered the evidence stressed by GP, that many purchasers of striated fir plywood were motivated to buy it only by its decorative appearance. This [54] evidence does not tend to diminish or deflate the amount

of a reasonable royalty in any significant fashion. Without the Deskey patent, GP could not lawfully have sold one square inch [of] striated fir plywood. The Deskey patent created a new article, something that GP had never been able to sell before. GP was seeking the substantial profits it could obtain from the sale of striated fir plywood and of collateral products. To obtain any of those profits legitimately, GP would have had to have a license under the Deskey patent. The fact—as we now know it in retrospect, according to the evidence of the motives of the purchasers of striated fir plywood—that the buyers of that product were attracted to it by its decorative appearance is irrelevant to the hypothetical negotiations of a reasonable royalty where GP's expectations of profits could be lawfully fulfilled only by a license of the Deskey patent and where the rate of profit could be estimated by both USP and GP on the basis of a long and recognized record of past performance. In this setting of the relative bargaining positions of the parties and the economic realities of this particular situation, the Court rejects GP's argument based on the decorative appearance of striated fir plywood.

It cannot be said that the fact that the purchasers' motivation in buying Weldtex was activated by its [55] decorative appeal is irrelevant as a matter of logic or immaterial as a matter of law. That evidence, however, is only one of many other tiles in the mosaic of proof. Since GP could not have created that particular decorative appeal for striated fir plywood without USP's Deskey patent, the bargaining motivations of USP and GP as aggressive competitors vis-à-vis each other overshadowed the economic significance of the consumers' motivations. If the Deskey patent had untested commercial appeal, that is, if Weldtex had just been making its debut in the marketplace, motivational research and evidence as to the nature of the consumers' reactions would undoubtedly constitute a cogent consideration. Here, however, Weldtex was a well-estab-

lished, highly successful product, with a consistent profit record of many years. In this particular factual context, psychological analysis of the consumers is largely academic.

c) *Absence of a prevailing royalty or royalties in generally comparable circumstances.*

GP claims that the amount of a reasonable royalty is strongly evidenced by the proofs concerning (1) the financial arrangements between USP and Deskey; (2) the royalties payable under the five licenses granted by USP to its contract or "captive" mills; (3) the royalties payable under the three [56] licenses granted by USP outside the United States; (4) eight or more miscellaneous other licenses cited by GP; and (5) the opinion testimony of GP's experts.

Accepting GP's proofs as possessing sufficient probative value to render then admissible, the Court finds that that evidence does not significantly tend to indicate the amount of a reasonable royalty in the present situation. In each instance, the royalty or other payment cited by GP was made under circumstances that are sharply and fundamentally different from the congeries of controlling facts presently before the Court. Each of the alleged analogies will now be considered seriatim:

(1) The financial arrangements between USP and Deskey.

USP's original agreement with Deskey was made in 1940. Tr. 116, 150 (Heilpern); see GP Exh. 1. The royalty originally provided for was 5 per cent of the mill price. Tr. 150, 213-14. At that time no patent had been issued. As assignee of the patent application, USP prosecuted the application, paying all the expenses involved, and actually obtaining the patent. Tr. 115, 151, 213 (Heilpern); Tr. 345-46 (Antoville). At the time the agreement was made with Deskey "it was a gamble"; no one knew whether striated fir plywood "would sell or not sell" or whether the patent would be obtained. Tr. 115-16, 151-52 [57] (Heilpern).

Contrary to GP's reference to this agreement as "a license from Deskey to make grooved plywood under the patent in suit", the agreement was an assignment by Deskey to USP of his unpatented invention. USP Exh. 31 (Deskey patent); Tr. 149, 151 (Heilpern); Tr. 345-46 (Antoville); see 258 F.2d at 126; 243 F. Supp. at 502.

Significant production of striated fir plywood by USP did not begin until 1945 or 1946. Tr. 117-18. In 1946, the USP-Deskey agreement was revised to give Deskey a royalty of $2.00 per thousand square feet on the first 12 million square feet each year, and $1.00 per thousand square feet on the excess. Tr. 116, 183, 192 (Heilpern); GP Exh. 9; *see* GP Exhs. 1 and 1A, and Tr. 194-95. When, in 1946, USP gave Deskey an advance of $48,000 on royalties, USP regarded it as "a real gamble because we [USP] did not know how much of the Weldtex we [USP] would sell at all" and "[w]e [USP] had no means of knowing whether we [USP] would ever earn that royalty at that time." Tr. 116, 151-52 (Heilpern). USP agreed to pay the royalty to Deskey because it "hoped to make a good profit". Tr. 152 (Heilpern.)

The circumstances and arrangements between Deskey, the inventor, and USP, the promoter, were basically [58] different from those that would be applicable to the negotiation of a reasonable royalty between two keen competitors like USP and GP in February 1955, when striated fir plywood was already a firmly-established and widely-recognized success.

In February 1955, Weldtex was at the height of its "amazing success". 258 F.2d at 131. Its sales since 1951 totaled more than $23 million and averaged almost $6 million per year. USP Exh. 1. USP "paid out to Deskey in the period 1940-1956 over $533,000 in royalties". 258 F.2d at 134. "[T]he large profits to be made as a result of the strong commercial appeal of a product like Weldtex were well recognized." 258 F.2d at 134. Cornelius Reckers,

GP's laboratory chief, testified that GP began the manufacture of striated plywood because it was "'extremely advantageous from a profit standpoint'". 258 F.2d at 134. GP's attorney described Weldtex as "extremely successful". USP Exh. 14a.

The preponderant weight of the credible evidence (see also Tr. 153 [Heilpern]; Tr. 373 [Antoville]) demonstrates convincingly that the commercial circumstances and economic relationships prevailing between Deskey and USP in 1939 or 1940 and in 1946 have no significant probative bearing upon the issue of a reasonable royalty as between USP and GP.

[59] (2) The royalties payable under the five licenses granted by USP to its contract or "captive" mills.

In the years 1946 and 1950, USP granted licenses—providing for the payment of a royalty to it of $2.00 per thousand square feet—to five "captive" mills as follows: Peninsula Plywood Corporation license on October 1, 1946 (GP Exh. 2; USP Exh. 19; Tr. 160-65); Cascades Plywood Corporation license on January 21, 1946 (GP Exh. 3; USP Exh. 20); Mutual Plywood Corporation license on October 26, 1950 (GP Exh. 4; USP Exh. 21); Davidson Plywood & Lumber Co. license re Weldtex on March 31, 1950 (GP Exh. 5; USP Exh. 22); Davidson Plywood & Lumber Co. license on August 1, 1950 re Sketchwood (GP Exh. 6; USP Exhs. 23, 27 [sample of Sketchwood]; Tr. 165-69, 242).

With the exception of the Davidson "Sketchwood" license (which will be discussed separately), these licenses were limited to the right of the "captive" mills to manufacture Weldtex for sale only to USP, in effect, to manufacture for USP's account. (Tr. 146.) It was USP that made the substantial profits (of about $54.25 per thousand square feet) by selling the Weldtex that the "captive"

mills produced for it. There is, therefore, a world of difference between a restricted license to a non-competitive "captive" mill to manufacture (and only to [60] manufacture) exclusively for USP and, on the other hand, an unrestricted license that would have enabled GP to manufacture and sell for its own account in competition with USP in the very same markets.

The economic value of the "captive" mills to USP consisted primarily of the assurance of its major supply of fir plywood and only incidentally of a royalty of $2.00 per thousand square feet, most of which USP, in effect, passed on to Deskey. Tr. 146-47 (Heilpern).

Manifestly, the royalty prescribed by USP for its captive mills has hardly any relevance to the issue of the amount of a reasonable royalty to be negotiated by USP and GP nor does it afford any indication of what the Deskey patent was worth to USP.

The "Sketchwood" non-exclusive license to Davidson Plywood & Lumber Company, providing for a royalty of $2.00 per one thousand square feet and terminable on 30 days' notice, does not materially aid GP. Tr. 169-70 (Heilpern). The credible evidence is that "Sketchwood", a specialty product of Davidson, did not involve striation, although the licensee was authorized to use the Deskey patent, Tr. 166 (Heilpern). "Sketchwood" was a completely different product from both Weldtex [61] and GP striated. USP Exh. 27; Tr. 170 (Heilpern). Davidson's business was local. "Sketchwood" was never made or sold by USP. It had no impact on the market for Weldtex or GP striated. The "Sketchwood" license, therefore, does not have a bearing on the issue before the Court. The circumstances affecting the isolated and somewhat anomalous "Sketchwood" license were not comparable to those affecting the nationwide infringement by GP or by the hypothetical license between USP and GP.

(3) The royalties payable under the three licenses granted by USP outside the United States.

The three foreign licenses were: a license on November 26, 1946 by USP to Canadian Forest Products, Ltd. and providing for a royalty of $3.00 per one thousand square feet of Weldtex (GP Exh. 23; SM 3284-88; Tr. 170-74); a license on December 23, 1947 by USP to Proofwood, Ltd., in Australia, and providing for a royalty of $3.00 per one thousand square feet of Weldtex (GP Exh. 23; SM 3281-84, 3290; Tr. 170-74); and a license on August 22, 1947 by USP to Fletcher Holdings, Ltd., in New Zealand, and providing for a royalty of $3.00 per one thousand square feet of Weldtex (GP Exh. 23; SM 3289-90; Tr. 170-74)..

The significance of these royalties is largely neutralized by the credible evidence that these licenses were [62] granted by USP outside the United States, in areas where USP itself had no established sales facilities. As to the Australian and New Zealand licenses, USP had no idea what kind of a market could be established there for Weldtex, which was a new product in those remote countries; and, therefore, USP fixed a minimum royalty. USP's purpose in granting the licenses was not so much to obtain royalty income as to establish relationships with the licensees. Tr. 173 (Heilpern).

As to the Canadian license, USP reserved the exclusive right to sell Weldtex in Ontario for its distributing subsidiary in that province, and obtained the licensee's agreement (which was USP's reason for granting the license) to provide that subsidiary with an assured supply of Weldtex and conventional fir plywood. USP had opened distribution in the Province of Ontario but did not have a supply of fir, while the Canadian duty on imported Weldtex was prohibitive. In order to obtain a source of fir and Weldtex, USP gave Canadian Forest Products, Ltd. a license. Tr. 172-73 (Heilpern); GP Exh. 23, including SM 3281-90 (Heilpern).

Because there is no sound basis for a meaningful comparison, the amounts of the royalties payable under the foreign licenses do not carry any significant weight with respect to the issue of a reasonable royalty between USP and GP.

[63] The foreign licenses, like the licenses with the domestic captive mills, were consistent with, and an important part of, USP's policy of reserving for itself the exclusive right to sell Weldtex wherever it had facilities with which to do so, and refusing to license anyone else to sell Weldtex wherever USP itself was able to do so. The rights granted by USP to the foreign licensees were completely different from the rights appropriated by GP, which sold its infringing product in competition with USP throughout the United States.

(4) Eight or more miscellaneous other licenses cited by GP.

As part of GP's thesis that there is a "pattern of royalties" in the "plywood and panel industry" "in generally comparable circumstances", GP relies upon the evidence of royalties payable by USP under three licenses to it; royalties payable by GP under four licenses to it; and several other license royalties.

The three licenses to USP were: a license covering "Novaply", a three-ply particle board, originally at the rate of 5 per cent of the sales price, which rate was later substantially reduced (Tr. 174-78 [Heilpern]); a license covering "Planktex", a decorative plywood panel, at the rate [64] of $3.00 per thousand square feet (Tr. 179-80 [Heilpern]); and a license covering "Techwood", made of a core of wood, a thin veneer of wood and paper on each side of it, at the rate of 50 cents per thousand square feet (Tr. 180-83 [Heilpern]).

The four licenses to GP were: a non-exclusive license for a plastic overlaid plywood, at the rate of 80 cents per thousand square feet (GP Exh. 20; SM 2622-24 [J. L.

Buckley]); an exclusive license for a laminated oak flooring, at the rate of 1½ to 3½ per cent (GP Exh. 20; SM 2625-26 [J. L. Buckley]); an exclusive license for "Fiberply", an overlaid plywood, made from green rather than dry veneer, at the rate of 1½ per cent. (GP Exh. 20; SM 2627 [J. L. Buckley]); and an exclusive license for hot pressed plywood having no overlay, at the rate of one-half of one per cent. (GP Exh. 20; SM 2627-28 [J. L. Buckley]).

The other license royalties cited by GP were a license granted by L. G. Buckley, providing for an overall royalty of $8.00 per one thousand square feet (GP Exh. 21; SM 3326-28 [L. G. Buckley]); and two or more unspecified licenses to Armin Elmendorf, providing for various royalty rates ranging up to $3.00 per thousand square feet. (GP Exh. 22; SM 3304 [Elmendorf]).

[65] Much, though not all, of the probative force of the foregoing evidence is dissipated by the radically different features and controlling circumstances pertaining to the compared but widely diverse products and the various respective licensors and licensees. While there appear to be some surface similarities to the situation at bar involving striated fir plywood, the dissimilarities as to the products and the parties' relationships preponderate; the relevance of the cited instances to the issue before the Court is superficial, inconclusive and not persuasive.

In assessing the probative value of a royalty rate offered by the infringer to prove a rate lower than that claimed by the patentee, the Court may not uncritically accept that numerical evidence. The Court must consider the economic ambiance of that statistic; special circumstances may explain why that particular rate was depressed or lower than others. See *General Motors Corp.* v. *Dailey*, 93 F.2d 938, 941-42 (6 Cir. 1937). The district judge, in determining the true measure of reasonable royalty, should not consider a "diminished royalty rate" which represented an amount that the patentee may have been compelled to accept in individual cases "by the disrepute of his patent and the open

defiance of his rights." *General Motors Corp.* v. *Dailey, supra.*

[66] This rudimentary principle of analysis has been largely disregarded by GP's simplistic discussion of the figures of royalty rates. There is an absence of meaningful evidence about such obviously pertinent factors as the relative economic positions of the licensor and licensee at the time the particular royalty was negotiated, in terms of their respective bargaining strength and their competitive status inter se; the economics of the market for the particular product before and at the time the particular royalty was negotiated; the character of the particular product itself, as either new or commercially accepted, at the time the particular royalty was negotiated; the past performance of the licensed product in terms of profit-bearing and the degree of its commercial success; and many other similar features that would enable the Court to make a sound businesslike evaluation. Without such evidence, bare data as to a royalty rate and cursory information as to the nature of a particular license transaction are gravely deficient in probative value. They lack the dimension of reality. The Court finds that the preponderant weight of the credible evidence does not establish a meaningful pattern of royalties relevant to the issue now before the Court.

(5) The opinion testimony of GP's experts.

GP also relies upon the opinion testimony of [67] four experts as to the amount of royalty which they thought "would be fair to both of the parties". None of these witnesses appeared before the Court. Their testimony was put into the record by introducing the transcripts of their prior testimony given before the special master, as follows: Armin Elmendorf (GP Exh. 22, SM 3290-3306); L. G. Buckley (GP Exh. 21; SM 3307-36); Robert Beggs (GP Exh. 18; SM 3338-64); and James L. Buckley (GP Exh. 20; SM 2535, 2612-30).

Elmendorf, a wood technologist, is a research engineer in forest products, including plywood. He invented "Flexwood", which was licensed to USP (Tr. 255 [Heilpern]). Since 1933, he has had his own research and development company, primarily devoted to developing new wood products. He has taken out over 90 patents and has granted approximately 15 licenses, "almost all of [which] . . . licenses were made very soon after the development of the invention." He was asked what royalty would represent a fair value for a product like Weldtex under a non-exclusive license granted about four years before the expiration of the patent. In his opinion, his "own experience" would indicate that "a fair royalty would be less than 3 per cent."

L. G. Buckley is in the business of developing and licensing wall panels of various sorts. He also was asked [68] what royalty would represent a fair value for a product like Weldtex under a non-exclusive license granted about four years before the expiration of the patent. His opinion was that "The figure would be in the range of $3 per thousand square feet"; that he "would have a great deal of difficulty in negotiating a contract of any kind with less than six or eight years left on the patent"; and that the two most important factors to be considered in negotiating a license are "probably, the nature of the product" and how competitive the market was for that product.

Beggs was associated from 1936 to 1959 with Roddis Plywood Corporation, a very substantial enterprise; and from 1945 until 1959 he was first vice president of that company. In response to the same question that had been put to Elmendorf and L. G. Buckley, he expressed the opinion that "the value of any license that would be granted under" a patent that had three or four years to run and the amount of a "royalty payment [under such license] would be de minimis"; and that a royalty for Weldtex would amount to "maybe one or two per cent at the outside".

James L. Buckley, GP's vice president in charge of sales, has been connected with GP since 1942 and has been

GP's chief license negotiator. After enumerating the [69] considerations that influenced him in making or not making a license, he testified that he would have been willing to pay as a royalty for a Deskey license "[n]ot over 2½ per cent" and then "[o]nly if our [GP's] net profit were 5 per cent or more."

Judge Herlands does not find the testimony of Elmendorf, L. G. Buckley and Beggs persuasive on any of the material points now in issue. They were questioned about "licenses" in abstract terms; they did not know anything about a licensing situation realistically comparable to that presented by the present case; they were not conversant with the business considerations in the marketing of striated fir plywood; and L. G. Buckley and Elmendorf did not know of any instance where a company successfully marketing a patented product had licensed the patent to a major competitor. Beggs' qualifications were described by the special master as "thin but not so thin as to dissolve into a nullity." (GP Exh. 18, at SM 3355). The Elmendorf, Buckley and Beggs testimony, designed to completely deflate the value of the Deskey patent and to support only a nominal royalty, is at odds with the preponderant weight of the credible evidence.

The testimony of James L. Buckley furnishes some indication, though slight, that GP would have been willing to pay a royalty equal to one-half of the net profit that GP [70] could expect to make on its striated fir plywood sales (GP Exh. 20; SM 2620-21). For the sake of argument premised on the foregoing Buckley position, GP would have been willing to pay a royalty of about $25.00 per thousand square feet, inasmuch as GP's reasonably expected rate of profit on the sale of striated fir plywood would have been $50.00 per thousand square feet. It would then be reasonable to assume further that the negotiations would have led to a compromise at about the midpoint between approximately $25.00 (that GP would have been willing to pay according

to the foregoing assumption) and approximately $50.00 (that USP would have found acceptable). The result would be a royalty of about $37.50 per thousand square feet.

Both Raymond T. Heilpern and Sol W. Antoville testified in person before Judge Herlands in behalf of USP. The Court exercised the opportunity thus presented of questioning them. Their extensive appearance on the stand also afforded the Court ample opportunity to observe their demeanor and manner of testifying. Their professional and technical qualifications and their testimonial credibility and reliability appear to have impressed Judge Herlands, and their testimony is equally impressive to me.

[71] Mr. Heilpern had served USP since 1937. In 1955, he was USP's general counsel. He was not only attorney to the company but also business counselor. He attended all the USP board meetings and virtually all management meetings when he was in town and participated in business negotiations and decisions. He had participated in the decision to take an assignment of the Deskey invention in 1940 and in subsequent negotiations with Deskey in 1945 or 1946 concerning modification of the agreement. He had handled the agreements between USP and the contract or "captive" mills.

Moreover, not only did Mr. Heilpern participate in more than a dozen license or royalty agreements in the course of his services for USP, but he actively practiced law, in connection with which he represented other clients in matters involving the formulation of license agreements providing for royalties for the use of various products.

In addition to his general familiarity with the various factors entering into the determination of a royalty to be paid under a license agreement to manufacture a given product, he was intimately familiar with the business and legal factors involved in USP's marketing of Weldtex under the Deskey patent. He would have been personally and significantly involved in the decisions and negotiations

concerning the hypo- [72] thetical licensing of the Deskey patent to GP in February 1955. He was preeminently qualified, on the basis of his first-hand knowledge as well as his expertise, to state the factors that would have been taken into account by USP and the ensuing conclusions by USP in determining the amount of the royalty to be required from GP in February 1955 for a license under the Deskey patent.

Mr. Antoville, now retired, had been vice president in charge of sales of USP from 1944 to 1953, and was the company's president and chief executive officer in early 1955, at the time of the hypothetical negotiations. He thus would have made the final decision concerning the hypothetical royalty to be negotiated with GP.

The Heilpern and Antoville testimony was factually supported, authoritative, forthright, realistic, reasoned and specifically and concretely directed to the subject of striated fir plywood.

Mr. Heilpern testified that the range of royalties that USP would have considered accepting in negotiating the hypothetical royalty was between $50.00 and $54.00 per thousand square feet of striated fir plywood manufactured and sold by GP, with $50.00 representing "the cheapest rate we [USP] would have consented to" (Tr. 132, 324) and that, in his judgment, [73] GP would have been willing to pay at least that minimum rate (Tr. 132-41, 316).

Mr. Antoville's testimony is that USP "would have asked for $55.00 to $65.00 per thousand". (Tr. 357-58.)

In their opinion, they regarded those figures as representing a reasonable royalty that should be awarded by this Court for GP's infringement. It is USP's submission "that the minimum amount of the reasonable royalty to be awarded by the Court should be $50 per thousand square feet of the infringing product made and sold by GP."

The Court accepts the substance of the Heilpern-Antoville testimony (and finds as facts) that a royalty of

$50.00 per thousand square feet payable by GP to USP would have enabled GP to realize a reasonable profit; that GP's average realization on all its striated fir plywood sales throughout the infringement period was $159.41 per one thousand square feet (USP Exh. 15, col. 3); that, after paying $50.00 per one thousand square feet to USP, the remainder of about $109.41 would enable GP to make a substantial profit; and that, in addition, GP would have the benefit of profits on collateral sales, though that amount cannot be quantified.

[74] CONCLUSION

The amount of the reasonable royalty fixed by the Court has been derived from a close factual analysis of the total record. The reasonable-royalty case law analysis, based on all the reasonable-royalty decisions in this circuit and the most pertinent decisions elsewhere, has furnished general guidelines in the form of the applicable criteria of legal principles and operative facts. To the extent that there is precedential guidance, that factor has been subjected to the qualifications and modifications required by a realistic comparison of the particular facts and individual circumstances in the prior decisions and those in the case at bar.

The Court finds and concludes that $50.00 per thousand square feet of the patented product, striated fir plywood, made and sold by GP, represents a fair reasonable royalty that should be paid by GP. This amounts to $800,000, which is hereby awarded to USP, together with interest on the said award computed from the date of the last infringement, September 1, 1958, to the date of payment of the award, at the rate of 6 per cent per annum.[5] *Cincinnati Car Co.* v. *New York Rapid Transit Corp., supra* at 595; *Rockwood* v. *General Fire Extinguisher Co., supra* at 66; *Egry Register Co.* v. *Standard Register Co., supra* at 442.

District Court Opinion
May 28, 1970

[75] This opinion contains the findings and conclusions required by Fed. R. Civ. P. 52(a).

Within ten days from the date of the filing of this opinion and decision, proposed additional or supplemental findings and conclusions may be exchanged and submitted.

Within twenty days from the date of the filing of this opinion and decision, a judgment shall be settled.

Dated: New York, New York
May 28, 1970.

CHARLES H. TENNEY
U.S.D.J.

Footnotes to Opinion

1. The statute provides:

> "§ 284. Damages
>
> Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.
>
> When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed.
>
> The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances."

2. In the proceedings before the special master, USP sought recovery on three alternative theories:

> (1) "Lost profits" of $1,101,520, representing the net profits on Weldtex that were diverted from USP by GP's infringement (on the assumption that USP would have sold 80% of the striated plywood footage sold by GP), supplemented by an additional lost profit of $431,410, on "convoyed sales" of other USP products that would have been generated by and sold along with the projected sales of Weldtex;
>
> (2) "Infringer's profits" of $1,004,735, representing the net profits derived by GP from the infringing sales, and supplemented by an additional infringer's profit of $431,000 on convoyed sales of other GP products generated by and sold along with the GP striated; and
>
> (3) As an alternative method of computation, USP sought damages of $974,953 on the "standard of comparison" theory, this sum representing the difference between GP's profits on the infringing sales of GP striated and the profits GP would have earned by selling an equal quantity of unpatented ¼" AD panels.

In ruling on USP's claims, the master rejected the "lost profits" submission. Although finding that USP had proved, among other things, the fact of damage,—i.e., that loss of sales of Weldtex occurred by reason of GP's infringement—the master found that

USP had failed to establish that a measurable quantity of such sales had been lost or that such loss of sales resulted in the loss of a measurable sum in profits.

The master upheld, however, the claim for "infringer's profits," and computed these in the amount of $685,837—as against USP's claim that they were $1,004,735 and GP's claim that they were only $145,090.73.

In recommending that the entire $685,837 be awarded to USP, the master rejected GP's contention that the value of the infringing article had to be apportioned between the Deskey patent and the article's other, noninfringing elements. The master found that the entire market value of the infringing article is attributable to the Deskey patent.

On objections to the master's report, this Court sustained the finding that USP had proved the fact of harm in the form of lost sales due to the infringement, and sustained also the master's rejection of the lost-profits claim. 243 F. Supp. at 512-513. The master's conclusion that USP should be awarded the infringer's profits was rejected, however, on the ground that such an award falls outside the statute's provision for recovery of damages. 243 F. Supp. at 514-546.

Having rejected USP's claims for lost profits or infringer's profits, the Court decided that "the award to USP should have been and will be computed on the basis of a reasonable royalty." 243 F. Supp. at 505, 512, 514, 546.

3. UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF NEW YORK

Civil Action No. 99-195

GEORGIA-PACIFIC CORPORATION,

Plaintiff,

v.

UNITED STATES PLYWOOD CORPORATION,

Defendant.

Stipulation

WHEREAS, the following facts appear herein:

1. On June 15, 1965, this Court, by The Honorable William B. Herlands, Judge, sustaining exceptions to the report of the Special

Master herein, held and ordered that the proper measure of recovery by the defendant, United States Plywood Corporation, because of the infringement by plaintiff, Georgia-Pacific Corporation, of claim 1 of United States patent to Deskey, No. 2,286,068, should have been, and would be computed on the basis of a reasonable royalty, and that further hearings should be had to determine the amount of said royalty (243 F. Supp. 500, 546-547).

2. Pursuant to this order, a first hearing was duly held for the purpose of determining said reasonable royalty on June 29, 1965 (Tr. p. 1).* The last of said hearings occurred on June 24, 1969 (Tr. p. 1272), at the conclusion of which it was ordered that briefs be submitted on July 22, 1969 at 5:00 P.M. (Tr. p. 1427-1428A).

3. During the course of said hearings, Georgia-Pacific Corporation Exhibits Nos. 1 through 38, and United States Plywood Corporation Exhibits Nos. 1-47, 50, 53-56, 59-68 (including all subletterings or numbers) were received in evidence, together with two letters dated June 27, 1969 and June 30, 1969, respectively, from Raymond T. Heilpern to Judge Herlands, together with an enclosure, and from John Vaughan Groner to Judge Herlands.

4. Following the submission of this cause to Judge Herlands as set forth above, Judge Herlands on August 28, 1969 died without having made such determination, it being understood, however, that at the time of his death, Judge Herlands had prepared a draft of his opinion herein together with notes or other memoranda relating thereto.

5. Thereafter, on or about October 9, 1969, the Honorable Sidney Sugarman, Chief Judge of this Court, referred this action to the Honorable Charles H. Tenney, United States District Judge, for all purposes.

NOW, THEREFORE, it is stipulated by and between the parties hereto, by their counsel, that this cause be submitted for the purpose of determining the amount of said reasonable royalty upon the proceedings referred to herein, and upon the briefs filed by both parties herein on September 22, and September 23, 1966, November 28, 1966, January 22, 1968, and July 22, 1969 (proposed findings of fact and conclusions of law having been submitted with the briefs of November 28, 1966 and July 22, 1969), together with oral argument if desired or ordered by Judge Tenney; it being specifically understood and agreed between the parties hereto that Judge

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* The hearings commencing with that of June 29, 1965 are reported and are consecutively numbered from page 1 through page 1428A, and are here designated as "Tr. p. ."

Tenney shall have the full and unlimited right to use or not to use all or any part of said draft of opinion, notes and memoranda, with or without acknowledgment of its source, as though the same were a part of the record made herein.

GEORGIA-PACIFIC CORPORATION
By JOHN VAUGHAN GRONER
Its Attorney

Dated: December 17, 1969

UNITED STATES PLYWOOD CORPORATION
By MARVIN H. GINSKY
Its Attorney

Dated: December 17, 1969

4. Both GP and USP have declined the opportunity for further oral argument before this Court.

5. The Supreme Court in *Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 377 U. S. 476, 505-06 (1964), referred to the legislative history:

> " 'The object of the bill is to make the basis of recovery in patent-infringement suits general damages, that is, any damages the complainant can prove, not less than a reasonable royalty, *together with interest from the time infringement occurred*, rather than profits and damages.' H.-R. Rep. No. 1587, 79th Cong., 2d Sess. (1946), to accompany H. R. 5311, at 1-2; S. Rep. No. 1503, 79th Cong., 2d Sess. (1946), to accompany H. R. 5311, at 2." (Emphasis supplied.)

Supreme Court, U.S.
FILED
AUG 26 1971
E. ROBERT SEAVER, CLERK

IN THE

Supreme Court of the United States

OCTOBER TERM, 1970

No. 71-158

GEORGIA-PACIFIC CORPORATION,
Petitioner,

v.

U. S. PLYWOOD-CHAMPION PAPERS, INC.,
Respondent.

BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

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August 25, 1971

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BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

OPINIONS BELOW

The opinion of the Court of Appeals is not yet reported; it is printed in the Petitioner's Appendix (1a-16a). The opinion of the District Court is reported at 318 F. Supp. 1116 (18a-73a).

STATUTE INVOLVED

35 U.S.C. § 284 (1952) provides in pertinent part:

> "§ 284 Damages
>
> Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement but in no event less than a reasonable royalty for the use made of the invention by

the infringer, together with interest and costs as fixed by the court."

Question Presented

Whether under 35 U.S.C. § 284, the District Court had the power, as held by the Court of Appeals, to award interest on the reasonable royalty award from the date of the last infringement.

Statement of the Case

The following facts are intended to supplement the Statement of the Case as set forth in Petitioner's brief (pp. 2-3).

Over 16 years ago, Petitioner deliberately duplicated Respondent's patented striated fir plywood (Weldtex) and put itself into direct competition with Respondent, despite its counsel's warning that an expensive law suit was inevitable. *Georgia Pacific* v. *U. S. Plywood Corporation,* 243 F. Supp. 500, 511; 15a.

The Court of Appeals reduced the reasonable royalty from $50 to $35.65 per thousand square feet to permit Petitioner to retain a profit of $230,000, which gave it a rate of return on its infringing sales equal to its sales realization on all products sold during the period of infringement (10a-11a).

In addition, Petitioner retains the substantial additional profits from collateral sales of other products sold along with its infringing striated fir plywood (45a).

The judgment requires the payment of interest only from the date of the last infringement, September 1, 1958 on royalties that should have been paid during the period of infringement from February 1955 to September 1, 1958.

ARGUMENT

THE AWARD OF INTEREST BELOW IS IN ACCORD WITH THE RELEVANT CASE LAW AND THE LEGISLATIVE HISTORY OF THE PATENT ACT.

A. *The Case Law.*

Contrary to the claim of Petitioner, the decision of the Court of Appeals in this case is in accord with the holdings of every court of appeals which has considered the effect of the new statutory provision on interest that was enacted in the Patent Act of 1946 (35 U.S.C. at § 70) (hereafter the "1946 Act").

As stated by the Court of Appeals (14a), none of the several post-1946 opinions which purported to apply the *Duplate* rule addressed itself to the effect of the new statutory language. See discussion of *Duplate Corp.* v. *Triplex Safety Glass Co.*, 298 U.S. 448 (1936) at pages 3-7 of Petitioner's brief. On the other hand, the three court of appeals opinions which have specifically considered the statute as amended have held that the amendment vested in the district courts the power to determine from what date interest should be paid.

In addition to the opinion of the Court of Appeals in this case, the Sixth Circuit in *General Electric Company* v. *Sciaky Brothers, Inc.*, 415 F.2d 1068 (5th Cir. 1969), held that "the statutory provision for additional damages, for interest and for attorneys' fees are all made discretionary for the District Judge." (1077) Petitioner attempts to distinguish this case because of a statement in the District Court's opinion that interest is a matter of discretion only in wilful infringement cases. The Sixth Circuit opinion cannot be said to have approved this unsupportable interpretation of the statute.

In *Marvel Specialty Co.* v. *Bell Hosiery Mills, Inc.*, 386 F.2d 287, 290, n. 3 (4th Cir. 1967), *cert. denied*, 390 U.S. 1030 (1968), the Fourth Circuit, citing the decision of this Court in *Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 377 U.S. 476, 505-506 (1964), stated:

> "The legislative history of the 1946 amendments, as recited in the *Aro* case, supra, shows that the sponsors of the bill contemplated the allowance of interest from the time of the infringement."

Petitioner attempts to distinguish the *Marvel* case on the ground that it involved an established rather than a reasonable royalty. In its determination of the effect of the new statutory provision on interest, the Court in *Marvel* did not differentiate between a reasonable and an established royalty—neither does the statute. There is no equitable or other reason for having a different rule with respect to interest on a reasonable royalty award. See Note, *Recovery in Patent Infringement Suits*, 60 COLUM. L. REV. 840, 855 (1960). In neither case is the claim for damages liquidated until a court determines the amount of the reasonable or established royalty. In both cases, the theory for allowing interest from the time the royalties would have been paid is that an infringer should not be put in a better position than a legal licensee.

35 U.S.C. §284 requires an infringer to pay damages adequate to compensate for the infringment, and by its terms indicates that the minimum recovery is a reasonable royalty together with interest fixed by the court. The payment of interest represents "damages for delay in payment and compensation for plaintiff's money that should have been included in withheld annual royalty statements which, of course, were never rendered by the infringer." *Hartford National Bank & Trust Co.* v. *E. F. Drew & Co.*, 188 F. Supp. 347, 349 (D. Del. 1960), *aff'd*, 290 F. 2d 589 (3rd Cir.)

cert. denied, 368 U. S. 825 (1961) (Reasonable royalty case where infringement may have been wilful but infringer's possible wilfulness was specifically not considered in the award of interest from the end of each calendar year in which defendant's sales were made "as part of the general damages for defendant's infringement of plaintiff's patent.") This case also directly contradicts Petitioner's assertion that every reasonable royalty case since 1946 has applied the so-called *Duplate* rule.

Petitioner further argues that the allowance of interest here creates a punitive barrier which forecloses further challenges of patent validity. This claim is completely refuted by the facts that petitioner was permitted to retain a reasonable profit on its sales of the infringing product, substantial profits on its collateral sales and also had the use of the money which it should have paid as royalty for an average of approximately 15 years. See p. 2 *supra.*

Petitioner's contention (pp. 5-6 of its Brief) that interest is generally not allowed on unliquidated damages relies upon old cases not in accord with current authorities. The award of interest on unliquidated claims from the date of the accrual of the cause of action or from the date that payment should have been made is in accord with the modern trend and has traditionally been within the discretion of courts in enforcing equitable claims, see C. McCormick, Damages § 49 (1935), and a reasonable royalty is considered "damages recovered and recoverable in equity." *Merrell Soule Co.* v. *Powdered Milk Co.,* 7 F. 2d 297, 300 (2d Cir. 1925) (15a). In fact, the Court of Appeals noted that the equities would have justified awarding of interest from the dates on which royalties would have been payable (15a) but simply held that, in the light of the above facts, the District Court had not abused its statutory discretion in awarding interest only from the date of the last infringement.

B. *Legislative History.*

The Court of Appeals did not rely on the legislative history of the 1946 Act to determine that interest is a matter of discretion in the District Court. Instead it accepted the view of the 6th Circuit in the *Sciaky* case *supra* that the specific language of the statute which provides for "interest . . . as fixed by the Court" makes the award of interest a discretionary matter.

Although we agree that this is a correct interpretation of the specific language of the statute, we submit that the legislative history is not neutral; it shows that Congress expected interest to be awarded from the time of infringement.

The sole object of the 1946 Act (the 1952 codification did not change this purpose)* was to allow the recovery of "general damages" together with interest fixed by the Court.

> "The object of the bill [the 1946 Act] is to make the basis of recovery in patent-infringement suits general damages, that is, any damages the complainant can prove, not less than a reasonable royalty, together with interest from the time the infringement occurred, rather than profits and damages." H. R. Rep. No. 1587, 79th Cong., 2d Sess. 1-2 (1946).

Contrary to Petitioner's assertion, the Senate adopted this same statement of purpose, S. Rep. No. 1503, 79th Cong., 2d Sess. (1946) (because of its brevity the Senate Report is attached as an Appendix to this brief) even though the Bill as finally adopted by Congress substituted the words "together with interest, as may be fixed by the

* It is true, as stated on page 6 of the Petition, that the 1952 amendment of the Patent Act was simply a codification of existing law. See also 13a, note 8. The statement, however, does not apply to the 1946 Act which, as stated by the Court of Appeals, for the first time provided for "interest . . . . as fixed by the Court." (12a).

Court" instead of the language in the House Bill (H. R. 5231) providing for interest "from the time the infringement began". However, this technical change is without substantive significance because, to repeat, the Senate Report accepted the above-quoted statement of legislative purpose of the Bill as so amended. That this is a correct statement of the relevant legislative purpose is confirmed by the *Aro Mfg. Co.* and *Marvel Specialty Co.* cases, *supra*.

In addition, there is no factual support whatsoever in the hearings on the 1946 Act, the relevant congressional committee reports or the comments about the 1946 Act on the floor of Congress, that the new statutory provision on interest was enacted for the purpose of adopting the so-called *Duplate* rule.

THE SPECIAL CIRCUMSTANCES OF THIS CASE SUPPORT THE INTEREST AWARD EVEN UNDER PETITIONER'S VIEW OF THE CASE LAW.

Petitioner admits that, under the *Duplate* rule if there are so-called exceptional or special circumstances in a reasonable royalty case, interest need not run from the date of the decree. Petitioner's brief (pp. 6-7) asserts that there are no special circumstances in this case because Respondent made no claim that the infringement was wilful, and implies wilful infringement is the only basis for allowing interest from the time of infringement. But the *Duplate* rule did not make willful infringement the sole test of when interest starts or the required special circumstance. In fact, the *Duplate* defendants "were not even conscious or deliberate infringers." 298 U.S. at 450.

The long delay between the infringement by Georgia-Pacific, the adjudications of validity and infringement and the fixing of a reasonable royalty, together with the following facts found by the District Court constitute special circumstances justifying the District Court's interest award under the *Duplate* rule:

1. "GP deliberately decided to duplicate Weldtex notwithstanding the caveat of GP's own counsel that an expensive infringement suit was inevitable." (29a)

2. ". . . [W]ithout a license from USP, GP could not legitimately manufacture striated fir plywood and, on the other hand, a license by USP to GP would place GP in direct and active competition with USP in the United States with respect to striated fir plywood." (29a)

3. The District Court found as had the special master that "GP's purpose in planning and projecting and effecting the manufacture and sale of striated plywood was to put itself in direct competition with USP's Weldtex; and it carried out this purpose throughout the period of infringement." 243 F.Supp. at 511.

The following cases allowed interest from the time reasonable royalties would have been paid, on facts said to constitute special circumstances, which facts are present in this case: *Grant Paper Box Co.* v. *Russell Box Co.*, 106 F.Supp. 616, 619 (D. Mass. 1952) (Wyzanski, J.), *aff'd*, 203 F.2d 177 (1st Cir. 1953) (factor of competition); *Mathey* v. *United Shoe Machinery Corp.*, 54 F.Supp. 694, 700-01 (D. Mass. 1944) (infringement "deliberate" but not willful); *Chesapeake & Ohio Ry.* v. *Kaltenbach*, 124 F.2d 375, 377 (4th Cir. 1941) (deliberate infringement and "defendants did what would have been lawful only under a license from plaintiffs and there was no such license"). Furthermore, the nearly twelve year delay between the last infringement and the judicial determination of damages is an additional special circumstance which makes this case even stronger than these three cases for having interest run from the time of infringement.

In light of its holding that interest was discretionary with the District Court, the Court of Appeals found it

unnecessary to consider USP's argument on this point and added that apparently no finding of special circumstances was made. Nevertheless, the findings referred to above support USP's position that, even disregarding the 1946 amendment on interest to the Patent Act, the special circumstances of this case justify the interest award from the time of the last infringement.

CONCLUSION

The petition for Certiorari should be denied since it presents no issue appropriate for decision by this Court at this time and also, because of the equities of this matter the litigation of which has continued for more than 16 years.

Respectfully submitted,

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APPENDIX

Apx. No. 1

CALENDAR No. 1529

79TH CONGRESS *2d Session*	SENATE	REPORT No. 1503

AMENDING REVISED STATUTES 4921 (U. S. C. A., TITLE 35, PATENTS, SEC. 70), PROVIDING THAT DAMAGES BE ASCERTAINED ON THE BASIS OF COMPENSATION FOR INFRINGEMENT

JUNE 14 (legislative day, MARCH 5), 1946.—Ordered to be printed

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MR. PEPPER, from the Committee on Patents submitted the following:

REPORT

[To accompany H. R. 5311]

The Committee on Patents, to whom was referred the bill (H. R. 5311) to amend the Revised Statutes of the United States (35 U. S. C. A. 70), having considered the same, report favorably thereon with amendments and recommend that the bill, as amended, do pass.

The amendments are as follows:

Page 2, line 1, strike out "decree" and insert in lieu "judgment".

Page 2, cancel lines 5, 6, and 7, and insert:

> royalty therefor, together with such costs, and interest, as may be fixed by the court. The court may in its discretion award reasonable attorney's fees to the prevailing party upon the entry of judgment on any patent case.

Page 3, line 9, strike out "decree" and insert in lieu "judgment".

Page 3, line 15, after "wrapper" change the semicolon to a period, and cancel the remainder of the sentence.

Page 3, line 21, after "concluded" change the period to a colon, and add:

> *Provided, however,* That pending causes of action in which the taking of the testimony has been concluded are to be governed by the statute in force at the time of approval of this Act as if such statute had not been amended.

The first and third amendments are made to render the term used consistent with the Rules of Civil Procedure.

The fourth amendment is made merely to remove from the existing statute a minor detail relating to a court fee which has been held, in the case of *S. & S. Corrugated Paper Machinery Company, Inc.*, v. *George W. Swift, Jr., Inc.* (62 Federal Supplement 355), to have been repealed by implication by subsequent acts of Congress. See the Flat Fee Act of 1944 (U. S. Code, title 28, sec. 549 et seq.).

DAMAGES FOR PATENTS INFRINGEMENT

The House Committee on Patents held hearings and made the following report, which is adopted as the report of the Senate Committee on Patents:

The bill H. R. 5311 is a committee substitute for H. R. 5231. Hearings were held on the latter bill on January 29, 1946. A number of persons appeared before the committee and testified—among them being representatives of the Patent Office, the Department of Justice, the American Manufacturers Association, the American Bar Association, and the Milwaukee Patent Law Association. In addition, other persons submitted written letters and statements. The substitute measure, H. R. 5311, incorporates many of the amendments proposed at the hearings.

The object of the bill is to make the basis of recovery in patent-infringement suits general damages, that is, any damages the complainant can prove, not less than a reasonable royalty, together with interest from the time infringement occurred, rather than profits and damages.

The relief that a patent owner needs against an infringer to protect his right in his patent and to compensate him for past infringement is an injunction to prevent future invasion of his right and general damages as due compensation for infringing either or any of the rights secured to the patent owner by his patent. Instead of general damages, section 4921 of the Revised Statutes now authorizes a complainant in whose favor a verdict has been rendered in an infringement suit to recover "in addition to the profits to be accounted for by the defendant, the damages the complainant has sustained thereby." The evil attendant upon "the law's delay" and the difficulty of adducing convincing proof of necessary facts is peculiarly exemplified in patent-infringement suits where profits are claimed.

Frequently a suit for patent infringement involves the infringement of only an improvement in a complex machine, and it is impossible to apportion profits due to the improvement. In such circumstances the proceedings before masters, which are conducted in accordance with highly technical rules and are always expensive, are often protracted for decades and in many cases result in complete failure of justice.

Although the bill would not preclude the recovery of profits as an element of general damages, yet by making it unnecessary to have proceedings before masters and empowering equity courts to assess general damages irrespective of profits, the measure represents proposed legislation which in the judgment of the committee is long overdue.

By the second amendment the provision relating to attorney's fees is made discretionary with the court. It is not contemplated that the recovery of attorney's fees will become an ordinary thing in patent suits, but the discretion given the court in this respect, in addition to the present

discretion to award triple damages, will discourage infringement of a patent by anyone thinking that all he would be required to pay if he loses the suit would be a royalty. The provision is also made general so as to enable the court to prevent a gross injustice to an alleged infringer.

The amendment at the end of the bill permits the pending causes mentioned to proceed under the old law.

In order to see the changes in the text of the existing law the section being amended is set forth below with the parts omitted enclosed in brackets and the new parts printed in italics.

SEC. 4921. R. S. (U. S. C., title 35, sec. 70). The several courts vested with jurisdiction of cases arising under the patent laws shall have power to grant injunctions according to the course and principles of courts of equity, to prevent the violation of any right secured by patent, on such terms as the court may deem reasonable; and upon a [decree] *judgment* being rendered in any such case for an infringement the complainant shall be entitled to recover [, in addition to the profits to be accounted for by the defendant, the damages the complainant has sustained thereby, and the court shall assess the same or cause the same to be assessed under its direction. If on the proofs it shall appear that the complainant has suffered damage from the infringement or that the defendant has realized profits therefrom to which the complainant is justly entitled, but that such damages or profits are not susceptible of calculation and determination with reasonable certainty, the court may, on evidence tending to establish the same, in its discretion, receive opinion or expert testimony, which is hereby declared to be competent and admissible, subject to the general rules of evidence applicable to this character of testimony; and upon such evidence and all other evidence in the record the court may adjudge and decree the payment by the defendant to the complainant of a reasonable sum as profits or general damages for the infringement: And the court shall have the same power to increase such damages, in its discretion, as is given to

increase the damages found by verdicts in actions in the nature of actions of trespass upon the case; but in any suit or action brought for the infringement of any patent there shall be no recovery of profits or damages for any infringement committed more than six years before the filing of the bill of complaint or the issuing of the writ in such suit or action, and this provision shall apply to existing causes of action.] *general damages which shall be due compensation for making, using, or selling the invention, not less than a reasonable royalty therefor, together with such costs, and interest, as may be fixed by the court. The court may in its discretion award reasonable attorney's fees to the prevailing party upon the entry of judgment on any patent case.*

The court is hereby authorized to receive expert or opinion evidence upon which to determine in conjunction with any other evidence in the record, due compensation for making, using, or selling the invention, and such expert or opinion evidence is hereby declared to be competent and admissible subject to the general rules of evidence applicable thereto.

The court shall assess said damages, or cause the same to be assessed, under its direction and shall have the same power to increase the assessed damages, in its discretion, as is given to increase the damages found by verdicts in actions in the nature of actions of trespass upon the case; but recovery shall not be had for any infringement committed more than six years prior to the filing of the complaint in the action. And it shall be the duty of the clerks of such courts within one month after the filing of any action, suit, or proceeding arising under the patent laws to give notice thereof in writing to the Commissioner of Patents, setting forth in order so far as known the names and addresses of the litigants, names of the inventors, and the designating number or numbers of the patent or patents upon which the action, suit, or proceeding has been brought, and in the event any other patent or patents be subsequently included in the action, suit, or proceeding by amendment, answer, cross bill, or other pleading, the clerk shall give like notice thereof to the Commissioner of Patents, and within one month after the decision is rendered

or a [decree] *judgment* issued the clerk of the court shall give notice thereof to the Commissioner of Patents, and it shall be the duty of the Commissioner of Patents on receipt of such notice forthwith to indorse the same upon the file wrapper of the said patent or patents and to incorporate the same as a part of the contents of said file or file wrapper; [and for each notice required to be furnished to the Commissioner of Patents in compliance herewith a fee of 50 cents shall be taxed by the clerk as costs of suit].